THE FREEMAN

IDEAS ON LIBERTY

Parents and Government

The New Industrial Policy

National Service: Utopias Revisited

Paying Bureaucracies to Run Amok

AUGUST 1993

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In Memoriam

Henry Hazlitt
November 28, 1894 - July 9, 1993

The Foundation for Economic Education mourns the passing of its esteemed Founding Trustee and cherished friend, Henry Hazlitt. He was the sole surviving member of FEE's original board.

Henry Hazlitt's distinguished career began in 1913 when he was hired by *The Wall Street Journal*. He went on to write for several newspapers, including *The New York Evening Post*, *The New York Evening Mail*, *The New York Herald*, and *The Sun*. In the early 1930s he was literary editor of *The Nation*, and succeeded H.L. Mencken as editor of the *American Mercury* in 1933. From 1934 to 1946 he served on the editorial staff of *The New York Times*. While at *The Times*, he wrote a series of courageous editorials opposing the trend toward radical intervention by all levels of government. From 1946 to 1966 he was the "Business Tides" columnist for *Newsweek*.

Mr. Hazlitt will be remembered as an eloquent writer, an incisive economic thinker, and a tireless defender of freedom. His best known book was *Economics in One Lesson*, which has sold more than one million copies since its first publication in 1946. He wrote or edited seventeen other books, including *The Failure of the "New Economics"* (1959) and *The Foundations of Morality* (1964).

Mr. Hazlitt's wife, the former Frances S. Kanes, preceded him in death in 1991. In March of this year The Foundation for Economic Education published *The Wisdom of Henry Hazlitt*, a collection of more than thirty of his articles and essays from *The Freeman*.

His knowledge and wisdom will be missed.

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PERSPECTIVE

I Need My Wants

I grew up in Chicago during the Depression. At that time, in that place, a *need* referred to food, shelter, and clothing. Today, some wants have escalated into needs.

Recently I asked one of my granddaughters what she wanted for Christmas.

"I need a Ken doll." (Ken, as in Barbie and Ken.)

"You don't need a Ken doll; you want a Ken doll."

"No, I *need* a Ken doll."

Already, at age eight, my granddaughter sensed the significance of changing her request from *want* to *need*. Needs are essential; wants are tinged with greed. She did not want that stigma.

There's a hint of something else here. Shifting an object from want to need shifts the focus from the "needy" person to the potential filler of the need. The unspoken words might go like this: "The Ken doll is a genuine need. You are able to meet that need. Will you meet my need?" Will I be a good grandfather?

Because of my long-time friend's terminal illness, I did yard chores for him. I remember his raising the want/need condition to a different level.

"Stan, the lawn needs mowing," he told me three times over a two-day period before I mowed the lawn.

His statement contains not only the possible hidden agenda in my granddaughter's response, but two other items. First, the need was transferred from him to the lawn: "Hey, don't look at me. Mowing isn't my need; it's the lawn's need." The needy person becomes the self-appointed spokesman for something outside himself.

Second, his remark is in the form of a statement, not a request, not: "Stan, would you mow the lawn, please?" I notice that many men have difficulty asking another man for help. (I learned that first by observing my own behavior.)

I believe neither my granddaughter nor my friend intended the meanings I have breathed into their statements. They may

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have felt a need or a lack, but feeling does not make it so. Neither product—yes, a lawn is a man-made product—is a necessity.

I don't believe my granddaughter's and friend's perceptions of reality are isolated events. Their common perceptions are, I have observed, part of a national perception.

Whatever the cause for our misperception, our survival as individuals, as families, and as a nation is dependent upon knowing the difference between needs and wants.

—STAN KARP

The Advantage of Being Armed

Besides the advantage of being armed, which the Americans possess over the people of almost every other nation, the existence of subordinate governments, to which the people are attached and by which the militia officers are appointed, forms a barrier against the enterprises of ambition, more insurmountable than any which a simple government of any form can admit of. Notwithstanding the military establishments in the several kingdoms of Europe, which are carried as far as the public resources will bear, the governments are afraid to trust the people with arms.

—THE FEDERALIST

The Unfairest Taxes

In 1790, the U.S. Tariff Code consisted of a single sheet of paper. Today, there are more than 8,757 tariffs—plus lots of quotas, so-called voluntary import restraints, and other import restrictions. These trade barriers cost consumers $80 billion per year—about $800 for every American family.

—EXECUTIVE ALERT

East and West

In recent months I have run into many people who say that because I am an Asian-American, I must recognize the superiority of Eastern culture over Western culture, and that I should be championing the virtues of Eastern culture such as civility and respect for moral authority, the elderly, and the family.

It is true, Asian culture and civilization have contributed much to the life of the mind: In philosophy, we have the names Confucius, Mencius, Chuantze, and Lao-Tze; in literature, we find outstanding writers such as WuChien-An, Li-Po, and Tu-Fu; in art, we find great work by Tang Po-Hu; and in music, there is Kuanghan-Chin.

I value and respect what these great Asian people have contributed to improving the quality of life for both Westerners and Easterners. But, at the same time, my mind keeps returning to the West. It was Shakespeare who wrote *Romeo and Juliet* and George Eliot who wrote *Silas Marner*; Nathaniel Hawthorne wrote *The Scarlet Letter*, and Charles Dickens, *David Copperfield* and *Great Expectations*. Bach composed the Brandenburg Concertos; Vivaldi, "The Four Seasons." Dante told us about hell and Milton about paradise. Plato gave us the Socratic dialogues; Aristotle told us about logic. Thomas Aquinas explained why it is rational to believe in the God of the Bible. Our Founding Fathers gave the world the Declaration of Independence and the Bill of Rights; Abraham Lincoln delivered the Gettysburg Address and affirmed the important truth that all men—black, white, and yellow, Eastern and Western—are created equal.

I am on the side of those scholars and people of good will who want to encourage a great conversation among the moral and intellectual giants of both Western and Eastern cultures and civilizations. We need to understand and appreciate and read and study the great works of Eastern (Asian) writers, philosophers, historians, musicians, and artists, as well as the great works of the moral and intellectual giants of the West.

However, I refuse to believe that because I am Asian-American I must say that Asian culture and civilization are superior to Western culture and civilization. It is the West, not the East, that has been most influenced by Christ, and that has made all the difference.

—HAVEN BRADFORD GOW

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THE NEW INDUSTRIAL POLICY

by Thomas J. DiLorenzo

Money will go where the political power is . . . . It will go where the union power is mobilized. It will go where the campaign contributors want it to go. It will go where the mayors and governors as well as congressmen and senators have the power to push it. Anyone who thinks government funds will be allocated to firms according to merit has not lived or served in Washington very long.

—Senator William Proxmire, 1983

These remarks by former Senator William Proxmire, Democrat of Wisconsin, presented during 1983 Senate debates over industrial policy, explain why current proposals for an interventionist "industrial policy" have little chance of improving economic efficiency. It is an iron law of politics that governmental schemes to support or subsidize certain industries will be guided primarily by political motivations—by pork-barrel politics—not by economic efficiency or "competitiveness" considerations.

Indeed, in many instances the very existence of government intervention—subsidies for failing businesses, for example—is inefficient and a hindrance to economic growth. One of the virtues of a free-market economy is that it rewards businesses that are efficient in serving their customers and penalizes others that aren't. Government intervention to prop up failing businesses only slows down the necessary market reallocation of resources that must take place in order to maintain a healthy economy.

One implicit assumption behind all proposals to "target" governmental assistance to "strategic" industries is that those doing the targeting will somehow be able to isolate themselves from political reality. But a politician who ignores politics is like a cat that barks; there is no such animal. As Nobel Laureate economist James Buchanan has explained:

> Politicians are politicians because they want to be. They are no more robots than other men. Yet the politician who would do nothing other than reflect the preferences of his constituents would, in fact, be robotlike in his behavior. Few, if any, politicians are so restricted. They seek office because they seek "profit" in the form of "political income" which will normally be obtained only if their behavior is not fully in accord with the desires of electoral majorities. Those . . . who are attracted to politics as a profession are likely to be precisely those who have considerable interest in promoting their

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own version of good government, along with those who see the opportunities for direct and indirect bribes, and those who evaluate political office as a means toward other ends.[1]

Interventionist industrial policies are nothing new. There have always been "collaborative" efforts between business, government, unions, and other groups, and the results have always been overwhelmingly guided by politics, not economics. More often than not, such collaboration turns into a conspiracy to raise prices, cut off competition, or loot the treasury. As Adam Smith remarked over two centuries ago in *The Wealth of Nations*: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

Allegedly Successful Industrial Policies

One of the most prominent and outspoken proponents of an interventionist industrial policy is MIT's Lester Thurow. At a time when socialism and centralized economic planning have been thoroughly discredited, Thurow—and quite a few other intellectuals, industrialists, and policy makers—is still arguing for greater governmental "planning" of the economy. Just what these would-be planners have in mind is clearly indicated by the examples offered by Thurow of allegedly successful industrial policies of the past. These policies, says Thurow, should be viewed as models for all of American industry.

In a report for the Center for National Policy entitled "The Case for Industrial Policies," Thurow hails government subsidies to the nineteenth-century transcontinental railroads as a stellar example of a "successful" industrial policy which serves as a model for the rest of American industry.[2]

While it is true that certain large corporations (and their employees and stockholders) did benefit—at least for a time—from land grants and other subsidies to some of the builders and operators of the transcontinental railroads, the overall effect of this particular industrial policy was to create a grossly inefficient industry in which all but one firm—the only one not to accept government subsidies—went bankrupt at some point.

Historical revisionists such as Thurow have long argued that without government subsidies the transcontinental railroads would not have been built—just as it is argued today that certain industries deserve subsidies because they allegedly may provide "the jobs and technology of the future." But there is a problem with this historical revisionism. As economic historian Burton W. Folsom, Jr., has pointed out: "While some of this rush for subsidies was still going on [in the late nineteenth century], James J. Hill was building a transcontinental from St. Paul to Seattle with no federal aid whatsoever. Hill's road was the best built, the least corrupt, the most popular, and the only transcontinental never to go bankrupt."[3]

The entrepreneurial Hill boasted that "our own line . . . was built without any government aid, even in the right of way, through hundreds of miles of public lands, being paid for in cash."[4] Hill understood all too well that with government subsidy comes government control, which is always detrimental to an efficiently run business. His competitors all ignored this lesson and found themselves drowning in bureaucracy, red tape, and regulation.

Congress' decision to grant *per-mile* subsidies to the builders of transcontinental railroads had economically ruinous effects. Since they were being paid by the mile, the railroads sometimes built winding, circuitous roads to collect for more mileage. The Northern Pacific and Central Pacific railroads were notorious for building with cheap materials and stressing speed over workmanship.

The "rush for subsidies" led to other perversities, such as building miles of track on top of several feet of ice in the Northern Rockies. When the spring thaw melted the

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ice, the tracks collapsed. The railroads simply rebuilt them and collected even more subsidy payments, courtesy of the U.S. taxpayers. Because of such inefficiencies the building of the transcontinental railroads cost three times more than originally estimated.

The building of the transcontinental railroads by the Northern Pacific and Central Pacific may have been inefficient, but their schmoozing of politicians and their subsidy seeking was not. For example:

> [Union Pacific Vice President] Thomas Durant wined and dined 150 "prominent citizens" (including Senators, an ambassador, and government bureaucrats) along a completed section of the railroad. He hired an orchestra, a caterer, six cooks, a magician, and a photographer. For those with ecumenical palates, he served Chinese duck and Roman goose; the more adventurous were offered roast ox and antelope. All could have expensive wine and, for dessert, strawberries, peaches, and cherries. After dinner some of the men hunted buffalo from their coaches. Durant hoped all would go back to Washington inclined to repay the UP for its hospitality.[5]

As is true of any type of interventionist industrial policy, when the financial success of a business depends critically on procuring government subsidies, it is bound to pay more attention to bribing the subsidy grantors than producing and marketing a competitive product. Industrial competitiveness inevitably suffers while governmental power expands.

Another feature of all industrial policies is that the power to subsidize is also the power to destroy. Government regulation always accompanies subsidies. This is why Hillsdale and Grove City Colleges, virtually alone among educational institutions, have refused to accept any form of governmental aid. The administrators and trustees of these institutions know that their independence and integrity would be compromised if they were to accept subsidies.

Some of the subsidized railroads eventually came to realize this as well. Union Pacific's president, Charles Francis Adams, complained that because of regulation "[w]e cannot lease; we cannot guarantee, and we cannot make new loans on business principles, for we cannot mortgage or pledge; we cannot build extensions, we cannot contract loans as other people contract them. All these things are [prohibited] to us. . . ."[6]

As Folsom concluded, subsidies to the transcontinental railroads "bred inefficiency; the inefficiency created consumer wrath; the consumer wrath led to government regulation; and the regulation closed the UP's options and helped lead to bankruptcy."[7] This is a lesson that today's industrial policy advocates have chosen to ignore.

The Great Northern

James J. Hill's Great Northern transcontinental railroad was a stark contrast to the other heavily regulated, bureaucratized, and grossly inefficient roads. Hill and his business partners purchased a nearly bankrupt (subsidized) railroad, the St. Paul and Pacific, in 1878. Unburdened by the political dictates of an industrial policy, Hill built his railroad according to economic, not political criteria. "What we want . . . is the best possible line, shortest distance, lowest grades and least curvature that we can build. We do not care enough about Rocky Mountain scenery to spend a large sum of money developing it."[8]

Hill personally supervised the building of his railroad, never skimping on quality materials. He assisted the farmers in the vicinity of his line by funding experimental planting programs and offering rewards for "the fattest cattle" and the most productive wheat fields. He did this because of his recognition that "we are in the same boat with you, and we have got to prosper with you or we have got to be poor with you."[9] Hill's personal tenacity enabled him to outcompete his heavily subsidized rivals who, burdened by regulation, *all* went bankrupt in 1893.

In sum, historical revisionists such as Thurow, who point to the government-

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subsidized transcontinental railroads as a "successful" industrial policy, are either poorly informed about them or are being very selective in their descriptions. While it is true that the government's industrial policy did contribute to the building of transcontinental railroads, it also deterred other entrepreneurs, like Hill, from building them with private funds and doing so much more efficiently. The gross inefficiencies of the government-subsidized railroads swamped any social benefits from the subsidies. Furthermore, the granting of subsidies encouraged others—not just in the railroad business—to seek similar handouts, which fostered a culture of political greed and corruption.

The USDA Model of Industrial Policy

A second "model" of a supposedly "successful" industrial policy, according to Thurow, is American agricultural policy. Here Thurow seems to commit the *post hoc, ergo propter hoc* (after this, therefore because of this) fallacy: American agriculture is efficient enough to feed America and much of the rest of the world. An interventionist agricultural policy exists. Therefore, the policy must *cause* the success of American agriculture. Another example of this fallacy would be: A rooster crows, and the sun rises every morning. Therefore, the rooster's crowing must cause the sun to rise.

A more accurate interpretation would be that American agriculture has succeeded—to the extent that it has—*despite* the government's agricultural policy, not because of it. America's agricultural policy, rooted in the farm programs of the New Deal that were ruled unconstitutional in the 1930s, is a clear example of the failures of central planning. James Bovard noted the similarities between U.S. agricultural industrial policies and the now-defunct, centrally planned economies of the former Communist countries:

> There are striking similarities between how America manages its agriculture and how Eastern European governments manage their industries. In Hungary and in Mississippi, prosperity often depends more on political connections than on economic achievement. In Czechoslovakia and in Illinois, the government pays not according to whether a product is sold, but whether it is produced. In Eastern Europe there are stocks of unused, often worthless manufactured goods; in the United States we have our rotting mountains of surplus cheese, butter, and corn.[10]

Although all industrial policies amount to little more than corporate welfare dressed up as a legitimate economic policy, there is much evidence that Thurow's vaunted agricultural policies do not even benefit farmers in the long run. According to Clifton B. Luttrell, who spent 35 years as an agricultural economist at the Federal Reserve Bank of St. Louis:

> The power of the federal government has been used for more than half a century to transfer wealth from taxpayers and consumers to a small group of landowners and agricultural suppliers via the farm program. In many cases, these amount to reverse transfers: subsidies by the less affluent for the more affluent. . . .
>
> Our current agricultural programs . . . contain an internal growth mechanism. The various instruments of U.S. farm policy—acreage controls, non-recourse commodity loans, export subsidies, dairy cattle buyouts, tariffs, import quotas, price supports, government land rental programs, direct payments to producers, and others—all have the effect of increasing the returns to farmers. In so doing, however, they increase the incentive to produce. Over the long run, then, they are self-defeating, because they encourage the use of new and excessive resources in the industry.
>
> In the presence of these new resources, returns are once again diluted, and subsidies must be ratcheted up again just to return to the earlier income standard. Repeated several times, this cycle can

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consume enormous amounts of government aid without significantly improving farm welfare.[11]

American agricultural policy is a carnival of corruption and inefficiency. In order to win votes and campaign contributions from a small but politically influential group—the farm lobby— government pays wealthy corporate farmers millions of dollars annually *not* to produce food; enforces cartel agreements with the explicit purpose of making food more expensive for American consumers—an especially cruel policy toward the poor; gets farmers hooked on federally subsidized debt that most farmers can never repay; subsidizes the use of chemical pesticides and other substances that are a major source of water pollution; and constitutes a perpetual drain on the taxpayers' pocketbooks.

H. L. Mencken understood the true manifestations of agricultural policy when he had this to say about subsidy-seeking farmers:

> Let the farmer, so far as I am concerned, be damned forever more! To hell with him and bad luck to him! He is . . . simply a tedious fraud and ignoramus, a cheap rogue and hypocrite, the eternal Jack of the human pack. . . . No more grasping, selfish and dishonest mammal, indeed, is known to students of the Anthropoidea. When the going is good for him he robs the rest of us up to the extreme limit of our endurance; when the going is bad he comes bawling for help out of the public till.[12]

Mencken went on to ask a series of questions that could well be asked of *any* industry proposing an "industrial policy" for itself.

> Has anyone ever heard of a farmer making any sacrifice of his own interests, however slight, to the common good? Has anyone ever heard of a farmer practicing or advocating any political idea that was not absolutely self-seeking—that was not, in fact, deliberately designed to loot the rest of us to his gain?[13]

To paraphrase, one might well ask: How often do industrialists and unionists go to Washington to lobby for anything *but* special-interest subsidies—at the expense of the taxpayers or of their competitors? How often does "collaboration" between government and business *not* end up in a conspiracy either to give the business collaborators a government-mandated competitive advantage over their rivals or to loot the treasury? If Thurow and other industrial policy advocates know of an example, they have yet to offer it.

Drunk With Power

A third example of a "model" of industrial policy "success," according to Thurow, is the federal government's Bonneville Power Administration (BPA). Like the Reconstruction Finance Corporation, the transcontinental railroads, and farm programs, there are clearly defined beneficiaries of the Bonneville Power Administration. But the issue is not whether any beneficiaries can be found. Rather, it is whether power generation in the Northwest—Bonneville's main priority—would be better served by alternative institutional arrangements, such as unsubsidized, private power provision. Also, what is the social return to the taxpayers' "investment" in subsidized power in the Pacific Northwest?

Bonneville and other public power "authorities" represent parochial, pork-barrel politics at its worst. There is no good reason why taxpayers in Massachusetts, Florida, and Kansas should be taxed so that residents of Oregon and Washington State can enjoy subsidized electricity that is priced at less than half the national average.

In theory, the federal government's initial investment in BPA—and in other federally subsidized power producers—was to be repaid. But despite its claims of profitability, BPA has repaid only eight percent of its initial funding from the federal government; between 1970 and 1984 BPA made only one payment of $126 million while borrowing an extra $5.3 billion from the federal treasury.[14]

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Far from being a model of success, the Bonneville Power Administration is primarily responsible for the largest default in the history of municipal finance—the Washington Public Power Supply System (WPPSS), or "Whoops" for short. It was Bonneville that initially persuaded 23 government-owned electric utilities to form WPPSS in the late 1950s. WPPSS was a government agency formed to carry out Bonneville's grandiose plans for nuclear power generation during the 1960s and '70s. It sold billions of dollars in non-voter-approved revenue bonds to finance the venture. In theory, revenues earned by the projects financed by such bonds are to pay off the principal and interest to the bondholders. But WPPSS, as an off-budget government agency shielded from public scrutiny and direct voter control, was notoriously inefficient as it built its nuclear power plants with its eye on political patronage, not economic efficiency.

In 1982—just prior to WPPSS' bankruptcy—*Fortune* reported that "A Nuclear Fiasco Shakes the Bond Market."[15] This "fiasco" culminated in WPPSS default on $2.25 billion in debt in 1983. The lawsuits against the public utilities, which were coaxed by Bonneville into forming WPPSS, were not settled until late 1992, a decade later.

The source of the WPPSS fiasco was industrial policy, or political management of industry. When Bonneville announced its plans, local politicians were quite enthusiastic, for many of them were offered seats on the WPPSS board of directors. Such seats were ideal places from which to award lucrative construction contracts to political supporters.

Construction companies and unions were equally enthusiastic, but investment bankers were perhaps the most enthusiastic supporters of all. In the autumn of 1981, Merrill Lynch underwrote $750 million in WPPSS bonds and earned a $22.5 million commission—the largest in the firm's history.[16]

With all this political support, WPPSS undertook to build five nuclear power plants simultaneously. Eager to spread the patronage contracts as widely as possible, the WPPSS board utilized as many as 65 general contractors per job site. Commonwealth Edison, a low-cost private producer of nuclear power plants, generally used about three general contractors. Bureaucratic ineptitude led to long delays and inflated construction costs. Each construction site was littered with as many as 50 cranes. Similar construction projects by private companies typically used about 10 cranes. A report by the Washington State Senate Energy and Utilities Committee in 1982 concluded that costs had escalated 1,200 percent above initial estimates as construction was delayed by five years or longer.[17]

Bonneville was stuck with a large part of the tab for these cost overruns and had to pass the costs on to all of its customers, who suffered an 88 percent rate hike in 1980 and an additional 50 percent increase in 1981.[18] Angered by these rate increases, the voters of the Northwest pressed for voter approval of future bond issues for WPPSS. Bonneville's response was to argue against the voters in court that such an exercise of democracy supposedly "violates both federal and state constitutions" and "interferes with Congressional policy regarding establishment of a reliable, stable power system in the Pacific Northwest."[19]

WPPSS is now defunct, having defaulted on over $2 billion in outstanding debt. Four of the five partially completed nuclear power plants were dismantled. All of this was widely publicized for years during the early 1980s, which makes it all the more incredible that someone supposedly as astute as Thurow would use the Bonneville Power Administration—the source of the WPPSS fiasco—as an ideal model of industrial policy for America.

A High-Tech Pork Barrel

The latest cause of America's central planners is to bureaucratize the high technology industries with a governmental "plan." But the federal government's record in the area of high technology indus-

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trial policies is abysmal. The *Wall Street Journal* recently characterized the policy of government subsidies for high technology industries as "a 40-year history of commercial-technology projects turning into pork barrel embarrassments. . . ."[20]

In a 1991 Brookings Institution study, *The Technology Pork Barrel*, Linda R. Cohen and Roger C. Noll concluded that of the major federally subsidized commercial R&D programs they studied, all but one—NASA's development of commercial satellites—were "almost unqualified failures."[21] It is debatable, moreover, whether even NASA's satellites are successes when one considers the opportunity cost—the value of alternative uses of those resources.

Because of WPPSS-like cost overruns, driven by the political patronage and bureaucratic bungling that is inherent in all government programs, the supersonic transport and Clinch River Breeder Reactor "were killed before they had produced any benefits." The Clinch River Breeder Reactor's cost overruns were so extensive and diverted so many dollars from the government's R&D budget that it "probably retarded overall technological progress." The space shuttle "costs too much and flies too infrequently," Cohen and Noll concluded, and the Synthetic Fuels Corporation spent billions on "pilot and demonstration facilities that failed."[22]

The story of the ill-fated Clinch River Breeder Reactor typifies government's industrial policies involving high technology. Cohen and Noll describe the project as "the quintessential example of a technological turkey by the time it was mercifully put to rest in 1983." Power demand was grossly exaggerated for political reasons, while costs were underestimated dramatically (where have we heard that before?). Like WPPSS and other industrial policy pork-barrel projects, the political benefits of patronage contracts "proved decisive in keeping the program going [long] after it was a clear mistake," costing the taxpayers millions.[23]

According to Cohen and Noll's statistical analysis of the determinants of Congressional votes for maintaining the Clinch River Breeder Reactor project, Congressmen tended to vote for the project if they were members of the Public Works Committee, Joint Committee on Atomic Energy, or the Subcommittee of Fossil and Nuclear Energy Research, all of which were able to grant construction contracts (i.e., dish out the pork). Also found to be a statistically significant determinant of votes in favor of continuing the project was the preponderance of "contracts for Clinch River-related work to the legislator's district."[24]

Based on their study of the history of the government's high technology industrial policies, Cohen and Noll concluded that the failure of virtually all such policies is inherent. "The principal conclusion [of the book] is that American political institutions introduce predictable, systematic biases into R&D programs so that, on balance, government projects will be susceptible to performance underruns and cost overruns."[25]

Proposals for a high-tech industrial policy all seem to ignore the fact that the private sector has already developed an amazingly efficient organization of information that is widely accessible through such products as computerized versions of the *Encyclopedia Britannica* and the *Oxford English Dictionary*, Prodigy, Compuserve, and a growing number of similar products and services that are sure to become increasingly inexpensive, as is always the case in such a competitive marketplace. The federal bureaucracy's intervention into this dynamic, efficient, and growing industry would be the kiss of death. Congressional micro-management could only retard America's information technology industries. The best the government can do in this regard is to eliminate government-created barriers to competition, such as allowing telephone companies to enter the fiber optics cable markets. Thus far, politically influential cable television companies have persuaded their friends in Congress to keep the phone companies out of information services markets. This policy illustrates why less, not more, government intervention would be the best industrial policy.

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Industrial Policy Means Protectionism

Some proponents of industrial policy claim to be in favor of free trade and against protectionism. This is an extremely naive viewpoint, however, because industrial policy inevitably leads to protectionism of one kind or another.

When President Bush traveled to Japan with auto industry executives in 1991, the executives didn't go there to lobby for free trade; they wanted the President to pressure the Japanese to reduce imports into the United States. Although he may not have realized it, George Bush did the American public a great service when he vomited (in view of television cameras) in the lap of the Japanese Prime Minister, abruptly ending an "unsuccessful" trip to Japan. If the trip had been a "success," as defined by the participants in the trip, Americans would now be paying more for automobiles and other products produced by the protectionists who accompanied the President and who conducted themselves like unwelcome guests who had crashed a wedding, embarrassing their industry and their country.

Before Bill Clinton was even sworn in as President, the same auto executives issued a memorandum requesting that the new administration sharply restrict the importation of minivans from abroad, despite the fact that the "Big Three" U.S. automakers account for about 90 percent of minivan sales. The result of lower import quotas, of course, would be higher prices to consumers.

The entire history of so-called collaboration between government and business is a history of protectionist pleading. For decades the Interstate Commerce Commission operated as a government-sponsored cartel for the benefit of the trucking and railroad industries and their unions. These regulated industries were able to charge monopoly prices, enforced by the federal government, in return for political support—in cash and in kind—from the industries and their unions.

The Civil Aeronautics Board operated a similar cartel arrangement for the airline industry. Research has also shown that the Federal Deposit Insurance Corporation restricted entry into the banking industry for decades, thereby propping up bank profits at the expense of consumers. Federal deposit insurance is the result of a "collaborative" effort by bankers and the government to socialize the risk, but not the rewards, of operating the banking system. The taxpayers are the suckers when it comes to bank bailouts, but they never share in any of the profits.

Collaboration between government and business in the agriculture industry has created a giant agricultural cartel, whereby the U.S. Department of Agriculture pays farmers *not* to grow food as a way of restricting the supply and increasing the price of food—exactly what a private cartel would want to do.

In most cities, the local governments grant a single cable television company a monopoly franchise. Monopoly prices are charged, and the government shares in the "loot" by taxing a portion of the monopoly profits. Millions of dollars are typically spent by cable companies to bribe—implicitly and explicitly, legally and illegally—city politicians into granting their company the monopoly franchise. The list of examples of how industrial policy constitutes a conspiracy by business and government *against* the public is almost endless.

Conclusions

Former Senator William Proxmire is right: An inherent feature of all interventionist industrial policies is that government money will go "where the political power is," regardless of economic considerations. Most industrial policy advocates seem to recognize this political fact of life, but then ignore it when making their policy proposals. Perhaps they believe that, once in power, their superior intellects will enable them to convince the career politicians to carry out the grandiose plans of the industrial policy advocates. If this is what the industrial policy advocates believe, then they are hopelessly naive.

The very image of a group of "planners" standing around a "situation room" in the

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White House with an "industrial map" of the United States, trying to determine where to intervene, is simply ludicrous. Choosing when and where to intervene would be guided by politics, not economics. Because of the nature of politics, such intervention inevitably funnels subsidies to incumbent firms which makes it more difficult for newer, more entrepreneurial businesses to become established. Then, because governmental controls always accompany subsidies, the controls render the subsidy-receiving firms less competitive. This usually leads to requests for even more corporate welfare, and the cycle repeats itself. As history has shown, an interventionist industrial policy—properly labeled as neo-mercantilism—is a recipe for economic stagnation and decline. □

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Blue Eagles and Déjà Vu

IDEAS ON LIBERTY

If the proponents of central planning came right out and said they wanted to create an economic police state, their cause would never get off the ground. So, they resort to "doublespeak," as Mario Pei so aptly called it, the usual camouflage for the ultimate use of force against the individual. Ludwig von Mises summed it up when he wrote: "All this talk: the state should do this or that ultimately means: the police should force consumers to behave otherwise than they would behave spontaneously. In such proposals as: let us raise farm prices, let us raise wage rates, let us lower profits . . . the *us* ultimately refers to the police. Yet, the authors of these projects protest that they are planning for freedom and industrial democracy."

Perhaps the oldest lesson of history is that an assault on one aspect of freedom is an attack on the whole, as the framers of the Constitution were well aware. To think that the bell that tolls for economic freedom does not toll for academic freedom or for freedom of the press is a delusion, and a dangerous one. . . .

All current proposals for a managed economy rest on an underestimation of the intelligence of the American people. They assume that you and I are just not smart enough to decide how to spend the money we earn.

—WALTER WRISTON, *The Freeman*, September 1975

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THE FREEMAN
IDEAS ON LIBERTY

NATIONAL SERVICE: UTOPIAS REVISITED

by Doug Bandow

In his State of the Union speech President Clinton proposed more than just higher taxes and more spending. He also promised to make his vision of national service a reality. It seems the President wants the state to guide the young into "appropriate" pursuits.

National service has long been a favorite utopian scheme. Eight decades ago William James wrote of the need for a "moral equivalent of war," in which all young men would be required to work for the community. He argued that "the martial virtues, although originally gained by the race through war, are absolute and permanent human goods," and that national service provided a method for instilling those same values in peacetime. "Our gilded youths would be drafted off," he wrote, "to get the childishness knocked out of them, and to come back into society with healthier sympathies and soberer ideas." Anachronistic though his vision may seem today, his rhetoric has become the touchstone for national service advocates: In succeeding decades a host of philosophers, policy analysts, and politicians proffered their own proposals for either voluntary or mandatory national service. And some of these initiatives have been turned into law: military conscription, the Civilian Conservation Corps, the Peace Corps, and ACTION, for instance.

Five years ago the Democratic Leadership Council (DLC), to which Governor Bill Clinton belonged, advocated a Citizens Corps of 800,000 or more young people to clean up parks and handle police paperwork. The system would be run by a Corporation for National Service, which would set the level of benefits for participants and offer an educational/housing voucher. Underlying the proposal was an assumption of mass moral decadence that had to be rectified by the federal government. We live in a "prevailing climate of moral indolence," lamented the DLC, where "such venerable civic virtues as duty and self-sacrifice and compassion toward one's less fortunate neighbors are seldom invoked."

Candidate Clinton was too interested in being elected to criticize the voters in those terms, so he used more positive rhetoric to propose allowing perhaps 250,000 or so people to work off their student loans through approved government service. His initiative, he explained, would allow everyone who wanted to go to school to do so, while having them give something back to the community. Superficially, at least, it sounds like a win-win proposition. In practice, however, it would pour billions of dollars into make-work jobs while reinforcing the entitlement mentality that pervades our society.

What Is National Service?

National service has always generated strong approval in opinion polls, largely

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because it means different things to different people. The concept of "service" to the nation seems difficult to fault, and everyone imagines that the service will be provided in the manner that they prefer. Thus, a century ago Edward Bellamy used his novel *Looking Backward* to propose drafting an industrial army of both men and women for life; in 1910 William James urged conscription of young men into the most unpleasant of work, such as construction, fishing, and steel-making. The so-called preparedness movement pressed for mandatory military training and service before the onset of World War I. Radical Randolph Bourne later proposed forcing young men and women to provide two years of service before the age of 20. Universal military training received wide endorsement after World War II, and Congress reimposed military conscription after only a one-year interregnum. Defense Secretary Robert McNamara advocated tying civilian service to the draft in the early 1960s. Sociologist Margaret Mead advocated a universal program that "would replace for girls, even more than for boys, marriage as the route away from the parental home."

Since then the proposals have come fast and furious. Don Eberly of the National Service Secretariat has spent years pressing for a service program, while carefully sidestepping the question of whether it should be mandatory. Charles Moskos of Northwestern University pushed a civilian adjunct to the draft before the creation of the All-Volunteer Force in 1973 and most recently has presented a detailed voluntary program. Moskos nevertheless retains his preference for compulsion, admitting that "if I could have a magic wand I would be for a compulsory system." (Also mandatory, though in a different way, is the service requirement for high school graduation now imposed by the state of Maryland and roughly 200 local school jurisdictions.) Dozens of bills were proposed in the 1980s to create commissions, hand out grants, reestablish the Civilian Conservation Corps and Works Progress Administration, generate other new service agencies, and pay part-time volunteers. Most serious was the Democratic Leadership Council's initiative, which Congress turned into an omnibus grant program, along with the Commission on National and Community Service. The issue had largely died until 1992, when the Los Angeles riots caused observers ranging from the late tennis great Arthur Ashe to Bush campaign aide James Pinkerton to press for different forms of national service. More important, candidate Clinton began inserting it into his stump speeches.

Clinton's Scheme

According to President Clinton, "you could bet your bottom dollar" that his program would "make it possible for every person in this country who wants to, to go to college." He proposed, as one of his top five priorities, creating the National Service Trust Fund. All young people, irrespective of their parents' income, could borrow for their education; they would repay their loans either through federal withholding from future wages or by "serving their communities for one or two years doing work their country needs." After the election budget realities forced him to scale back his initiative to a maximum of 150,000 participants annually, under the aegis of a new Corporation for National Service.

There is nothing compulsory about the Clinton proposal, but coercion could follow later. Enthusiasts of a mandatory, universal system, like Republican Senator John McCain of Arizona, see voluntary programs as a helpful first step, and would undoubtedly press for making them involuntary once national service became the law of the land, especially if "too few" children of privilege and wealth joined.

Service is obviously a good thing, which is why so many people feel warm and fuzzy when politicians propose "national service." The question, however, is service to whom? Government programs ultimately assume that citizens are responsible not to each other, but to the state. The proposals suggest that as a price for being born in the

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United States one "owes" a year or two of one's life to Washington. Mandatory universal schemes put private lives at the disposal of the government, but most of the voluntary programs, too, imply a unity of society and state, with work for the latter being equated with service to the former.

Americans have worked in their communities since the nation's founding, and opportunities for similar service today abound. Some 80 million people, roughly one-third of the population, now participate in some volunteer activities. Businesses, churches, and schools have taken the lead in helping to organize their members' efforts. In a cover story *Newsweek* reported that "many of the old stereotypes are gone. Forget the garden club: Today working women are more likely than housewives to give time to good works, and many organizations are creating night and weekend programs for the busy schedules of dual-paycheck couples. Men, too, are volunteering almost as often as women."

Much more could be done, of course. But it would be better for government officials to lead by example rather than to concoct multi-billion dollar schemes to encourage what is already occurring. True compassion is going to be taught from the grassroots on up, not from Washington on down. The underlying assumption of the Clinton program—that there is a debilitating dearth of service that can be remedied only through yet another raid on the taxpayers—is simply false.

A second bias held by national service advocates is that "public" service is inherently better than private service. Yet what makes shelving books in a library more laudable or valuable than stocking shelves in a bookstore? A host of private sector jobs provides enormous public benefits—consider health-care professionals, medical and scientific researchers, business entrepreneurs and inventors, and artists. Working in a government-approved "service" job neither entitles one to be morally smug nor means one is producing more of value than the average worker in the private workplace.

Entitlement Mentality

Still, national service proponents rightly point to the problem of an entitlement mentality, the idea that, for instance, students have a right to a taxpayer-paid education. Why should middle-class young people be able to force poor taxpayers to put them through school? The solution, however, is not to say that students are entitled to do so as long as they work for the government for a year or two, but to eliminate the undeserved subsidy. People simply do not have a "right" to a university education, and especially a professional degree, at taxpayer expense.

Program advocates respond with shock. Education, they argue, will be increasingly important in an increasingly technological age. True enough: The greatest divergence in incomes in the 1980s reflected the gulf between those with and without college degrees. That increased earning potential primarily benefits the student himself, however, and the likely lifetime gain of $640,000 should allow him to borrow privately. The interest rate may be higher than with today's federal guarantees, but that hardly seems unfair given the added earnings of the student.

Nevertheless, Senator Chris Dodd, an advocate of the Clinton program, contends that even middle-class families can ill afford to send their kids to college. That's now accepted as a truism, but it is not obviously correct. More than three-quarters of the best students currently go on to higher education. Qualified students unable to get a college education because of finances are few. Policymakers need to acknowledge that not everyone needs a university degree to find fulfillment in life. Some young people are not academically oriented or interested; others have found more satisfying ways to spend their lives. The federal government shouldn't be pushing them to go to school.

Anyway, the fact that higher education, especially at elite private universities, strains many family budgets is hardly surprising, since the dramatic increase in federal educational aid has helped fuel a rapid

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rise in tuition. Further flooding the educational system with money is likely to benefit administrators as much as students. The point is, if there's more money available for schools to collect, they will do so.

Moreover, it is because of free-spending legislators that government now takes roughly half of national income, making it difficult for families to afford higher education. Politicians worried about middle-class taxpayers should therefore cut special-interest spending, not hike costs by several billion dollars, and perhaps tens of billions of dollars, through a national service program. In short, while the jump in federal educational assistance in the 1970s undoubtedly helped more students attend college, there is no reason to assume both that the majority of these marginal attendees benefited more than the cost of their education and that they could not have afforded school had tuitions not been artificially inflated and their families' incomes been so sharply and unnecessarily reduced by taxes.

Opportunity Costs

Paying young people generous compensation for national service—they will receive tuition relief *plus* salary and health-care benefits to paint "darkened buildings," as suggested by the President, or do police paperwork, proposed as part of the DLC's program, or perform other "service"—entails forgoing whatever else could be done with that money. Moreover, it entails forgoing whatever else those young people could do. "Public service" has a nice ring to it, but there is no reason to believe, *a priori*, that a dollar going to national service will yield more benefits than an additional dollar spent on medical research, technological innovation, or any number of other private and public purposes. Indeed, the Clinton program would delay the entry of hundreds of thousands of people into the workforce every year, an economic impact that the President and his advisers appear not to have calculated. Yet the relative value of labor may rise in coming years as the population ages. As a result, the opportunity cost of diverting young people into extraneous educational pursuits and dubious social projects could rise sharply over time.

Another potentially important opportunity cost is diverting top quality men and women from the military. The end of the Cold War has sharply cut recruiting needs, but it has also reduced some of the allure of volunteering as well as the perceived national need. As a result, by summer 1992 the Army, which typically has a more difficult recruiting task than the other services, was about ten percent behind in signing up recruits for 1993. The military has even seen recruiting fall off in such traditional strongholds as northern Florida and other parts of the South. Yet various programs of educational benefits have always been an important vehicle for attracting college-capable youth into the military. Providing similar benefits for civilian service may hinder recruiting for what remains the most fundamental form of national service—defending the nation. The result, again, would be higher costs: economic, as more money would have to be spent to attract quality people; military, as the armed forces might become less capable; and moral, since military service would lose its preferred status, warranted by the uniqueness of the duties involved.

Still, there are undoubtedly many worthwhile tasks nationwide that people could do. The problem in many cases, however, is that government effectively bars private provision of such services. Minimum wage laws effectively forbid the hiring of dedicated but unskilled people and inhibit rehabilitation programs, like that run by the Salvation Army; restrictions on para-transit operations limit private transportation for the disabled. Licensing, zoning, and other unnecessary and often nonsensical regulations increase the price of day care. Similar sorts of restrictions harm private voluntarism as well. Health regulations prevent restaurants in Los Angeles and elsewhere from donating food to the hungry, for instance. In short, in many cases important needs are unmet precisely because of perverse government policy.

To the extent that serious problems re-

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main, narrowly targeted responses are most likely to be effective. That is, it would be better to find a way to attract several thousand people to help care for the terminally ill than to lump that task with teaching, painting buildings, and a dozen other jobs to be solved by a force of hundreds of thousands. Talk of millions of "unmet social needs" is meaningless.

The Clinton program would simply assign people, people whose motivation would as likely to be working off a school debt as "serving." In fact, the government risks subverting the volunteer spirit by paying loan recipients too much. The DLC suggested that its program promoted sacrifice, yet University of Rochester economist Walter Oi estimated that the total compensation—salary, health care benefits, and untaxed educational/housing voucher—for "serving" was the equivalent of $17,500 annually *after taxes*, well above the mean earnings for high school graduates. The Clinton administration is equally generous, offering a tax-free educational voucher of $5,000 annually, plus nearly $9,000 in minimum wage compensation, along with health care and other benefits. As a result, students will see national service as a financially remunerative job option, not a unique opportunity to help the community.

Like the mythical Sirens, national service retains its allure. Argues Roger Landrum of Youth Service America, "Clinton has a shot at mobilizing the idealism and energy of a very significant number of young people, as Roosevelt did with the Civilian Conservation Corps and John F. Kennedy did with the Peace Corps." Alas, President Clinton's scheme would end up no bargain. It would likely create a nightmarish bureaucracy and increase an already out-of-control deficit. National service would also reinforce today's misbegotten entitlement mentality while siphoning tens of thousands of young people out of productive private labor and into make-work projects. Finally, if the program inflated tuition levels as has student aid in the past, it probably wouldn't even benefit many participants, but would fund college administrators more than students.

What we need instead is a renewed commitment to individual service. People, in concert with one another, need to help meet the many serious social problems that beset us. There is a role for government: Officials should commit themselves to a strategy of "first, do no harm." We need to eliminate public programs that discourage personal independence and self-responsibility, disrupt and destroy communities and families, and hinder the attempts of people and groups to respond to problems around them. But the private activism that follows needs neither oversight nor subsidy from Big Brother. Some of the voluntarism can be part-time and some full-time; some can take place within the family, some within churches, and some within civic and community groups. Some may occur through non-profit and some also through profit-making ventures. The point is, there is no predetermined definition of service, pattern of appropriate involvement, set of "needs" to be met or tasks to be fulfilled. America's strength is its combination of humanitarian impulses, private association, and diversity. National service is an idea whose time will never come. We need service, not "national" service. □

National Service: An Old Idea

And he said, "This will be the behavior of the king who will reign over you: He will take your sons and appoint them for his own chariots and to be his horsemen, and some will run before his chariots.

"He will appoint captains over his thousands and captains over his fifties, will set some to plow his ground and reap his harvest, and some to make his weapons of war and equipment for his chariots.

"He will take your daughters to be perfumers, cooks, and bakers."

—I Samuel 8:11–13

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THE FREEMAN
IDEAS ON LIBERTY

PAYING BUREAUCRACIES TO RUN AMOK

by Gary North

Before retiring from the U.S. Senate, William Proxmire used to give a monthly presentation, The Golden Fleece Award, to a spending project he thought wasteful and unproductive. The recipients of the award always defended their research as important to the national interest, compounding their silliness.

When I wrote a newsletter for Congressman Ron Paul in 1976, I imitated Proxmire. I read the regular reports issued by various government agencies to see what kind of projects they were funding. I was looking for obvious waste. Government research projects were always the most ludicrous.

After each issue of the newsletter appeared, people would write some variation of the following letter: "Normally, I agree with everything you say, but in your recent newsletter you attacked the government's support of _____. In my view, this is a very important project, well worth the money." Almost without exception, the individual who sent the letter was employed either by the government agency that gave away the money or the institution that received it.

No matter how silly, no matter how wasteful, there is always someone inside a bureaucracy who will defend a particular government expenditure. While Proxmire received a lot of publicity for his Golden Fleece Award, and while the column in Congressman Paul's newsletter amused thousands of readers, the bureaucratic nonsense has not only continued, it has escalated. The federal government is today running a $300 billion annual deficit—$4,000 per American family—and still the nonsense continues. The bureaucracy has clearly run amok.

To Destroy Our Freedom

It is not just that the bureaucrats are spending tax money on things which the voters would never voluntarily choose to buy with their own money. The bureaucrats are also preventing the American people from spending their own money on the things they do want to buy. No one has monitored this more effectively and amusingly than James Bovard.

In his book *The Fair Trade Fraud*, Bovard offers us hundreds of pages of horror stories: examples of special-interest-motivated laws that favor (in the short run) American producers at the expense of American consumers. Bovard notes: "Foreign nations are routinely prohibited from sending more sweaters to the U.S. each year than are sold by a single New York department store. The U.S. government decreed on April 8, 1988, that Sri Lanka could ship only one dozen men's and boys' cotton coats to the U.S. in the following seven months" (p. 39).

I ask: Why even bother granting to a foreign nation's producers the right to ex-

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port duty-free to the U.S. a grand total of a dozen coats? Why require the U.S. Customs Service and the foreign government's bureaucrats to go to the expense of identifying those initial dozen coats to be allowed in, "no strings attached"? I would estimate that the total cost of administering the red tape for the exemption is much greater than the value of several dozen imported Sri Lankan cotton coats.

Bovard writes: "The U.S. now imposes over 3,000 separate quotas on clothing and textile imports from forty nations" (p. 36). It should be obvious that the bureaucrats have a vested interest in maintaining as many regulations as will provide continuing employment for bureaucrats. Those U.S. producers who oppose imports have an operational alliance with the entrenched bureaucracies that administer the restrictions.

It is the utter absurdity—from the point of view of U.S. national interests—of the specific restraints that Bovard discusses that makes his book a powerful indictment of tariffs and quotas. By no stretch of the imagination is the national interest of the United States defended by the 1989 decision of U.S. Customs to prohibit the importation of a shipment of 30,000 pairs of tennis shoes from Indonesia because the shoe boxes contained an extra pair of shoelaces. A Customs Service agent decided that the extra pair of shoelaces required a separate quota license, and his decision established a precedent for the Customs Service. Customs declared that the import of the extra pair of shoelaces would have been legal if: (1) the extra pair had been laced into the shoes; and (2) the extra pair had been color-coordinated with the shoes.

The only good thing we can say about this system is that it is relatively small: The average tariff is now around 5 percent. But tariffs range as high as 458 percent on some items; there are 8,000 different taxes; and they cost each family $1,200 a year.

In the Name of Fairness

This seemingly ethics-based word, "fair," is used to justify political policies that are in fact manifestly unfair to American consumers and foreign producers. How fair would it be for the government to place restrictions on exporters? Would voters regard this as fair? Yet this is what the result of "fair trade" always must be. A restriction on imports of some items is inevitably a restriction on exports of other items. A barrier *in* is always a barrier *out*. If foreign producers cannot earn dollars from selling their goods to Americans, then foreign consumers cannot buy these same dollars from those foreign producers in order to import goods from America.

Unfortunately, this two-way effect of trade barriers is not understood by most people, especially the politicians who vote for import restrictions. These same politicians routinely vote for government export subsidies. They would rarely vote for export restrictions except in cases where national defense is involved, yet import restrictions are inevitably export restrictions. A practice that almost everyone in a nation would regard as economically foolish and morally unfair is the inevitable result of policies defended as fair.

The problem is, the bureaucracies that promote these policies almost never revoke them voluntarily. No matter how silly the policies become, no matter how oppressive, there is always a bureaucrat and a special-interest group that will defend it. Unless exposed publicly as an obvious moral outrage, or worse (from the bureaucrats' point of view), as utterly ridiculous, and unless a politician makes its eradication part of his personal agenda, the policy will continue. Time and time again, the enforcement of the policy becomes more absurd and more unfair over time. The question is: Why?

A Question of Incentives

People rarely will admit publicly they have been foolish, immoral, or both. Without the threat of negative sanctions for wrongdoing and positive sanctions for righteousness, all men's actions tend to drift toward the foolishness of their own hearts. Christians call this original sin. Economists

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call this the pursuit of short-term self-interest. The fact is, the tendency exists.

In 1944 Ludwig von Mises wrote a little book titled *Bureaucracy*. In it, he discussed two forms of management: profit management and bureaucratic management. Profit management is driven by the pursuit of profit and the avoidance of loss. The seller of goods and services must meet the demands of consumers or else be forced out of business. The system is driven by sanctions in the hands of consumers: money.

Bureaucratic management is also driven by money. But this money is not in the hands of consumers. It is in the hands of those who act through the state. The state is not a voluntary agency facing open competition in a free market. The state is a legal monopoly of violence. So, the rule of bureaucratic management cannot be "profit and loss." A bureaucracy is governed by two things: its budget and its rule book.

The state taxes people, and the money must be spent according to "the book." The primary goal of the bureaucrat is two-fold: (1) to persuade the politicians to increase the budget; and (2) to persuade the politicians to turn the book-writing task over to the bureaucracies that enforce the rules. They have been successful in both respects over the last eight decades.

The more rules, the larger the budget necessary to enforce them. So, as time goes on, the "iron law of bureaucracy"—not Mises' words—if left unrestrained by outside pressures, will lead to a growing number of rules. The "book" gets larger, more complex, and more incoherent. The general rules for spending this money are written by the politicians, but the rules governing the implementation of the politicians' general rules are written by the bureaucrats themselves. Each year, the *Federal Register* publishes over 30,000 pages of fine-print rules. This is in addition to all the rules that have already been published, and many that have never been published (executive emergency orders).

In the United States, disputes over the enforcement of these rules are initially settled by "administrative law judges," who are in fact employees of the very bureaucracy which enforces the rules. Should we expect impartial judgment from such people? Or should we expect them to do what they are paid to do: to expand the authority of the bureaucracies that employ them?

Mises warned that bureaucratic management must be limited to the enforcement of generally known rules. If bureaucrats can make the rules so complex that only they or skilled lawyers can understand them, the state will become arbitrary and tyrannical as it expands its power. This is why Mises warned that the state must be drastically limited to enforcing laws against violence and fraud. If it extends its reign to the area of "positive sanctions"—trying to make men good in addition to restraining evil acts—it will inevitably become arbitrary and tyrannical.

The Solution: Personal Responsibility

Mises put the blame where it belongs: on the front doorstep of the voters. "The plain citizens are mistaken in complaining that the bureaucrats have arrogated powers; they themselves and their mandatories have abandoned their sovereignty" (p. 120). By electing men to office who have voted to expand the powers of the state, voters have thereby expanded the power of bureaucracies over them. The consumers' sovereignty over what is produced is thwarted by the bureaucrats' rule books and the taxes necessary to finance the enforcement of these rules.

The answer is the reduction of taxation and the elimination of thousands of volumes of official rules. We need smaller government budgets and fewer laws. In their capacity as voters, consumers must restrain themselves in their quest for legislated perfection on earth—a perfection promised by those who seek to tax and regulate those societies whose voters are unwise enough and immoral enough to listen to such promises. □

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NOTES FROM FEE

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THOUGHTS FOR THE DAY

I

Cheating in its many forms is theft, even if the victims are not aware of it. Riding a bus without paying the fare is theft, even though the stockholders may not be aware of the act. Selling defective merchandise or rendering services inferior to representation and advertisement clearly is theft. For men to withhold work, loiter about, and loaf on the job is to steal from their employer. It violates the eighth commandment which simply states "Thou shalt not steal."

II

Every individual prefers to buy the desired merchandise at the lowest possible price. Even rabbis, priests, and ministers choose to pay the lowest possible price for the automobile of their choice—unless they decide to make a gift to the dealer. They sell their old cars at the highest possible price—unless they choose to make a gift to the buyer. They seek to maximize their gains on the purchase or sale, which permits them to allocate the savings to the satisfaction of other needs.

III

A businessman is a man engaged in the production of economic goods and the rendering of economic services. He is the servant of consumers whose whims and wishes guide him in his production decisions. As they prefer to buy their goods at the most favorable price, so must he buy them at the lowest possible price. He cannot grant favors to suppliers at the expense of his customers; he cannot pay wages higher than those allowed by the buyers.

IV

Economic life is encompassed by political conditions and social institutions. When they are conducive to economic productivity, economic conditions will improve and bring forth general prosperity. When they turn increasingly hostile to economic effort, conditions are bound to deteriorate. This is why every alert citizen always keeps an eye on the body politic.

V

There is no inevitability in the coming of inflation, depression, or any economic disaster. Man makes laws and repeals them. He has made laws that are sowing the seeds of conflict and strife; he can repeal them. He has enacted laws that are promising to do what laws cannot do; he can rescind them. Man may live above his circumstances, or decide to live within his means. He may indulge in deficit spending or balance his budget; there are no uncontrollable expenditures, no unavoidable deficits.

VI

A policy designed to enforce economic equality opens the doors for demagoguery and politics at its worst. It invites expedient politicians to stir up the resentment of the poor against the rich so they may elect the demagogues to positions of power and

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largesse. It appeals to envy and covetousness, and elevates demagoguery to an important device of democratic politics. In the end, politics is likely to become an art of promises, evasions, and systematic pursuit of expedience, making the body politic the primary source of social conflict and strife.

VII

American economic wealth is the product of the labors, savings, and entrepreneurial efforts of many generations of Americans. Our generation is the beneficiary of the apparatus of production left us by many generations that preceded us. We neither planned nor built it; with minimal effort on our part, we are enjoying the broad stream of goods it is providing. Yet, for most of us, this is not enough; we make our political institutions run chronic deficits and leave the bills to our children.

VIII

Politicians are aware that children have no votes and cannot do anything for them at the polls, which makes children the easiest prey of all. A society in an advanced stage of moral disorder does not hesitate to prey on its children through both confiscatory estate taxation and deficit financing that saddles them with huge mountains of debt.

IX

Many businessmen favor keen and unhampered competition in every field of production—except their own. Calling for "order" and "fairness" they advocate political intervention that hampers and handicaps their competitors. Facing foreign competition, they devise tactics and stratagems that would restrict imports and promote exports. Facing domestic competition, they would use politics to restrain competition in numerous devious ways.

X

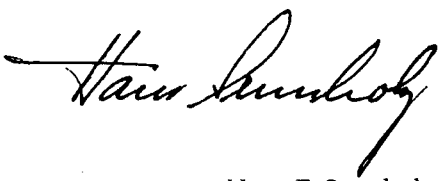
Taxation at confiscatory rates undoubtedly springs from envy and covetousness, although its authors and sponsors are quick to deny it. After all, these are such shameful traits that no one has the courage to own them. Yet, confiscatory extractions from individuals who earn more than legislators imposing those rates are difficult to explain unless the legislators are inner-directed by envy and covetousness. Economic reasoning does not justify the extractions.

XI

Inflation is the willful issue of new money with the intent to enrich government and its beneficiaries at the expense of inflation victims. It is theft, pure and simple. In design, purpose, and effect it is the same as counterfeiting, which enriches the counterfeiter and defrauds the victims.

XII

Socialism as an economic system has fallen into disrepute since the visible failure of the Soviet economic world. As a body of thought, however, it lives on in the prejudices against the private-property order. It is clearly visible in the common distrust of individual freedom and the call for legislation, regulation, and control by the agents of government.



Hans F. Sennholz

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Fall 1993

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Beginning in October, FEE will host a series of Saturday evening discussions on a vital issue of the day, led by Hans F. Sennholz and a distinguished guest lecturer. Each round-table meeting will be preceded by a dinner and reception beginning at 5 p.m. Charge: $50.00. Attendance limited to 50 persons.

October 2 Round-Table

Robert James Bidinotto, Staff Writer for *Reader's Digest*, and Dr. Sennholz will lead a discussion on crime and punishment.

November 6 Round-Table

Lawrence W. Reed, President of the Mackinac Center for Public Policy in Midland, Michigan, will join Dr. Sennholz for a discussion of privatization and other contemporary issues.

Contact Barbara Dodsworth at FEE to enroll or to request additional information.

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Fall 1993

Taxation and Confiscation

Bankers and Regulators

Workers and Unions

Religion: Foundation of the Free Society
by Edmund A. Opitz

Clichés of Socialism

A Lesson from the Past
The Silver Panic of 1893
by Lawrence W. Reed

Information concerning the price, contents, and publication date of each volume will appear in future issues of *Notes from FEE*.

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THE FREEMAN
IDEAS ON LIBERTY

ARE AMERICANS OVERFED?

James E. McClure and T. Norman Van Cott

Americans comprise five percent of the world's population, yet consume 25 percent of world's economic pie. Left-leaning pundits, professors, and preachers delight in juxtaposing these statistics to "prove" that Americans are materialistic, wasteful, and overfed.

Many Americans accept this argument. What they overlook is that aside from international theft or philanthropy, any nation's consumption standard is limited to what it produces. A nation consumes its production directly, and indirectly by trading with other nations. In this light, it follows that Americans consume 25 percent of the world economic pie because they produce at least 25 percent of the pie!

Could it be that Americans are "overworked"? After all, five percent of the people producing 25 percent of the output hardly seems an equitable apportionment of the work load. Maybe our self-styled humanitarians should praise Americans, rather than scorn them.

The Luck of the Draw?

Even when conceding that Americans produce what they consume, these professional social critics cling to the notion of "overfed" Americans by arguing that America's claim on the pie is illegitimate. A popular argument is that a lucky draw of natural resources is the source of America's high living standards. This undermines Americans' claim by asserting that they are not responsible for the pie's size.

A quick glance at a world atlas exposes the lucky draw contention as sophistry. For example, Hong Kong, Japan, the Netherlands, South Korea, and Taiwan succeeded without such draws. Indeed, Hong Kong's draw didn't even include fresh water! At the same time, Brazil, China, all of sub-Saharan Africa (except for South Africa), and the countries of the former Soviet Union are economically backward despite vast resource endowments.

It cannot be denied that the United States was blessed with abundant resources. The Brazils of the world make it clear, however, that the key is that Americans have been good stewards of their blessing. Rather than resource endowments, the inheritance that really matters is that bequeathed by the Founding Fathers: an economic system that encourages this good stewardship. In any event, to condemn U.S. living standards because of generous resource endowments is analogous to denigrating the achievements of Nobel Laureates because they have high IQ's.

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Economic Imperialism?

At other times, these so-called humanitarians argue that America owes its abundance to foreign investment by "imperialistic" U.S. multinational corporations. These corporations supposedly sap the strength of their host nations by repatriating profits to the United States. Moreover, because the profits allegedly caused the destruction of the host nations' local industries, environment, and cultural heritage, the nations are victims of a corporate double whammy.

A sense of *déjà vu* attaches to this contention. It is essentially the same argument used to assail colonialism. History belies the notion that a colonial heritage predestines national penury—the United States, Canada, and Australia were once colonies. Likewise, nations that were never colonies languish economically—Tibet, Liberia, Afghanistan, and Ethiopia are examples.

The evidence attesting to foreign investment's *positive* role in economic development is overwhelming. Except for England, *no* nation has developed without the active involvement of foreign investors in its economy. The post-World War II experience of Pacific Rim countries—South Korea, Singapore, Taiwan, Hong Kong—is one recent example of the power of this engine of economic growth.

At the other end of the spectrum lies the former Soviet Union and its economic puppets: They actively discouraged foreign investment and their underfed people are still paying the price.

Are Americans, Then, Overworked?

If economic abundance is assured neither by the luck of the draw nor by economic imperialism, must we conclude that Americans are overworked? No, the sources of a nation's output of goods and services go beyond its *physical* inputs. Americans *appear* to be overworked only because the Founding Fathers bequeathed them an economic system that magnifies the results of their work effort.

More than 200 years ago Adam Smith saw that actions of self-interested people can, unbeknownst to them, enhance their nation's economic pie. In Smith's famous words, people can be "led by an invisible hand to promote an end which was no part of [their] intention." Open markets and secure property rights are the hand's lifeblood.

These institutions give entrepreneurs an incentive to seek out consumers who value their products highly. At the same time, consumers have an incentive to discover producers who provide goods at least cost. The invisible hand is as much an input in production processes as are land, labor, and capital. Thus, Americans are more productive because the invisible hand is their ever-present helping hand. □

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THE FREEMAN
IDEAS ON LIBERTY

THE BENEFITS OF VARIATION

by James Rolph Edwards

As a professor of economics who wishes to convince his students of the importance of economic insights without overselling economic knowledge, I have always taught my students that even the best economic models have only *heuristic* value and cannot be expected to explain everything. The proper question to ask about such models is whether we understand more by having the model than we would without it. I argue that this is particularly true of the theory of perfect competition, with its numerous small firms, homogeneous product, and perfect information. It is, at best, a useful analytic device for illustrating, in a simple form, certain things about business decision-making and how economic profits and losses motivate firms to shift resources from lower to higher valued employments. However, there are many important features of the real world that are abstracted from the model. Austrian economists are correct in asserting that real states of market structure and competition which deviate from the model are not necessarily inferior, and may even be superior in crucial respects.

Assuming away such differences is sometimes useful for allowing clear focus on the relationships between a single pair of variables, or the effect of a single change, such as in demand or supply. The real world, however, is not only characterized by variation, but benefits enormously from it. Such variation cannot be ignored if economic and other social phenomena are to be understood.

Consider, for example, the fact that minerals and metals are not spread evenly throughout the earth's crust, but are distributed randomly with concentrated lodes in some places, and almost none in others. Clearly, if such resources were spread evenly in the earth's crust it would not have been economically feasible to mine any of them with primitive technologies. Note also, that in the history of economic thought, this uneven distribution of such resources has been one of the prime factors in the theory of comparative advantage used to explain trade flows.

Analogous to resource variability is climate, an under-represented factor in explanations of comparative advantage and trade. How often do we stop to think of the great variety of products that exists as a consequence of the variety of weather and temperature (in combination with soils, minerals, and other factors) around the world? Many types of plants and animals, which flourish in climates a standard deviation or so away from the mean, would not exist if the mean temperature prevailed everywhere. The variety of our consumption options would be greatly restricted as a consequence.

Now consider human variability. The two

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most crucial dimensions here are in abilities and tastes. Most of us go through life lamenting our apparently low endowment in one or more human abilities, even though we usually have *above* average endowments in some others. Consider certain obvious consequences that would follow from everyone having the *same* endowment, equal to the present *mean value*, of every human quality. For one thing, there would have been no Galileo and no Copernicus to advance knowledge of the universe, and no Edison to create practical products. The basic point here is crucial: *The mean intellect is inadequate to make the kinds of discoveries such individuals make*, but, amazingly, *it is adequate to understand their basics once they are discovered and taught*. The existence of individuals with extreme intellectual abilities therefore results in enormous advance in the knowledge of the general public. The absence of variation in such abilities would leave humanity in a perpetual primitive state, at best.

Variation in human abilities also has pervasive economic and social effects. It is another prime source of the comparative advantage that results in specialization, division of labor, and exchange which so greatly increase the aggregate production, wealth, and income of society's members. Associated differences in knowledge and attitudes give rise to civilized discourse and communication, the arts, and so on, without which life would be much less interesting. In addition, each of us can gain pleasure from the mere observation of abilities we lack being applied. Who among ordinary mortals does not thrill at the sight of Michael Jordan leaping from near the foul line and sailing through an army of defenders to make a left-handed behind the back layup? In the absence of variation in human abilities there would be no Einsteins, Rembrandts, or Michael Jordans, and I suspect we would all die of boredom posthaste.

Such variation also gives rise, however, to differential attainment within all fields of human endeavor, hence differential acquisition of wealth and income. Some resentment results on the part of those who regard themselves as disadvantaged in terms of their endowment of human (or other) resources, or whose accomplishments seem meager. It is easy to argue, however, that under at least some institutional arrangements, specifically private property, limited government, and free markets, there are large social benefits that result from differential attainment of assets and wealth.

Consider, for example, differential skills and attainment in business activities. One of the abstractions of the theory of perfect competition already mentioned is that it assumes away differences in managerial and entrepreneurial ability among the decision makers of the firms in the market. It is often noted that in many real world markets the bulk of assets are concentrated in the hands of a relatively few firms, who also do the bulk of sales. But given the natural variation in managerial ability and entrepreneurial talent, and the great scarcity of extreme abilities of these types, how could things be otherwise?

With a normal statistical distribution of such abilities among corporate decision makers within an industry, there will be a distribution of costs among the firms, with some being high, a few very low, and most in between. But the highest cost firms will lose market share and leave the industry, while the low cost firms will gain market share, increasing both sales and assets. In essence, assets will be transferred within the industry from inefficient, high cost firms to efficient, low cost firms. That means not only that assets and sales in the industry will tend to concentrate in the low cost firms, which will make larger profits than others in the industry, but that *industry total output (and hence market supply) will be larger and price will be lower than would be the case under an even distribution of managerial and entrepreneurial talent at the mean value*. The consuming public will be enriched. This common, real world market condition is not inferior to the state described by the perfectly competitive model, but superior to it, from the crucial perspective of human well-being.

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Human well-being is also enhanced by product differentiation, in which firms in the same industry produce different versions of the same product. This is another variability phenomenon that is omitted from the theory of perfect competition. Product differentiation has at least three sources. The first is that the perfect information assumption of the model does not hold in the real world. Information is an economic good which is costly to obtain, not a free good. In particular, the optimal specification of esthetic and utilitarian properties of the product, which best satisfies consumer taste, is *not* known *a priori* or by divine revelation. It must be *discovered*, and the only available method is to try various specifications on the market. Hence firms do so, each competing to be first to find what consumers regard as the best form of the product.

The second source of product variation is that consumer tastes vary. If consumer preferences were all the same, product variation would be transitory at best. Early in an industry's history firms might try different specifications, but unsuccessful versions would be eliminated from the market, successful versions would be copied, and product variants would tend to converge over time on the single optimal specification. In reality, however, human tastes often vary widely with regard to the desirable characteristics of a particular product, hence *there frequently is no single optimal product specification*. Different versions, satisfying various subsets of the product's consumers, will continually be produced. The third factor generating product variation is that consumer tastes change over time, so that experimentation in product specification is an ongoing necessity.

In this process as in others, participants in the market are continually responding to relative price changes and profit and loss signals in ways that shift scarce resources from the lower to the higher valued of diverse human ends. Here as in so many other ways, humans benefit from variation. The world really would *not* be a nicer place if all fast food chains produced identical hamburgers, and all cars were the same, as some economists seem to claim. As the Frenchman said, more wisely than he knew, "Vive la différence!" □

CHEAP CAPITALISM

by A. M. Rogers

The watchword of the '90s is said to be "frugality." But during hard economic times, it is especially important to keep in mind that frugality under capitalism means something very different from frugality under other economic systems.

To illustrate, meet a friend of mine named Max. Max considers himself the personification of frugality. He takes great pride in just how much he can do without and, whenever we talk, he always slips in some tidbit on this aspect of his character. For example, he has told me how he puts cardboard in his shoes rather than purchase new ones. I know he owns just two pairs of pants and an equal number of shirts. He runs his shower water a trickle at a time and he keeps his heat down low even in the winter. In fact, he keeps his heat down so

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low at his New York house that the gas company sent out men to replace his gas meter. The gas company just couldn't believe the meter was measuring the gas correctly, despite Max's proud assurances it was.

Though Max may look and act like a pauper, he happens to be a man of professional standing who earns a decent income. Unlike Max, most people in his income bracket are flaunting their wealth by purchasing boats, fancy automobiles, designer clothing and, at the least, brand new shoes.

Yet Max understands that, just as it is capitalism that allows these other people to display their success with a dazzling array of material goods, it is also capitalism that gives his reverse snobbery meaning.

When Max tells his tales of meager living, he is fully aware of who is listening to him. He knows that part of the enjoyment he gets in telling his stories depends on the background of his audience. He wants to leave his listeners wondering and more than a little astonished. The one question he wants his stories to raise is "why?" Why does Max choose to live this way? Aha! A choice is involved.

Imagine, instead, that Max is living in a country such as Russia or one of its neighboring republics. Or imagine that Max lives in a Third World country. In these countries, an average professional, such as Max, may not have the choice to go out and buy new shoes when he needs them. The average person, in these countries, may not be able to take a shower even if it is just a trickle.

In materially and economically impoverished countries, a person cannot decide when, where, and how to be frugal. In these countries, the average person has no choice of what not to spend his money on. If there is no food, he does not eat. Or, if there is bread but no meat, he eats bread. Or, if there are shoes but no coats, he has shoes but not a coat. It is frugality by poverty in these countries, not frugality by choice.

It is true, however, that unlike many people these days, Max is unique in that he is not forced to be as frugal as he is. But he is like the people who are forced to be frugal in that he has, as they have, a choice over what items and objects on which to economize.

For example, Max lives in a nice house. Though it's not a mansion, it is a house inconsistent with someone who has cardboard in his shoes. Ironically, to Max, a nice house was just too essential to cut back on. He sees food, clothing, shoes, and heat as luxuries. Consequently, it is on these that he economizes. And even poor people can occasionally splurge on the things they enjoy most whether it be, for example, a movie or clothes or cigarettes.

Being frugal under capitalism is a matter of individual choice and, for this reason, it is something different from being frugal under other economic systems. In America, most persons still can decide what they want to do without or on what they want to economize. Each person's strategy or tactics in being frugal will be unique to him. It will depend on what he values, what he is indifferent to, what he can most afford and myriad other individual factors.

Choosing what not to spend your money on requires that there be material goods around on which you can possibly spend your money. Freedom of frugality requires the enormous wealth of choices afforded by the capitalist system. Ironically, it takes a rich capitalist country to give cheapness real meaning. □

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FOR YOUR OWN GOOD

by Roger Clites

During the last half century more and more experts have appointed themselves to make us do what is good for us or, as they usually say, "It is for your own good." Sometimes they try to force us to bend to their will by exerting social pressure. Frequently they do it by obtaining the power of government to make us do their bidding.

The paradoxical thing about their goals is that not all of them are bad for us. If these experts did not foster a rebelliousness in us by insisting on bending us to their will, we might even do some of the things they feel we must be compelled to do.

A simple and personal example is the matter of exercise. When I was growing up, children often walked many miles a day to organize a baseball game on a vacant lot or at a city park. Then they would exercise for hours on end—throwing, swinging a bat, running between the bases and in the field, and playing all sorts of games. They did not do this because it was good for them. The exercise was a by-product of doing what was fun.

As time passed adults got involved. The involvement took at least two different forms. One was organizing children's fun into Little Leagues, into which adults insinuated themselves. Often they purchased expensive equipment for the players. They took away the spontaneity by grouping the kids into teams determined by the adults, by setting up leagues, and by scheduling when the children could have fun, i.e., when they could play. Often they would make the play still more like work by scheduling practice sessions to which they would *require* the kids to come if they were to be allowed to "play." By then what was taking place was no longer children's play, nor was it fun for them. Adults planned it, supervised it, and, worst of all, got so emotionally involved in it that some of the kids actually began to hate to engage in this form of play.

Next came school intervention in children's recreational exercise. One favorite childhood activity was shooting basketballs at hoops nailed to a tree in the backyard. I used to play basketball in my early teens. About that time government school officials decided that students needed *physical* education, as well as the Three R's and other mental types of education.

At the small high school which I attended in the ninth and tenth grades the physical education teacher was also the basketball coach. He did not change the pattern of play unduly from what we had done on our own. The class usually had about 15 students, so he would allow us to choose up three teams of five players, put two teams on the floor, and set a given number of baskets as "game." Then the side that had been "sitting it out" would take on the winners. The only other way that the coach would intrude would be to change the odds, if necessary, such as shirts would win with five baskets and skins with three.

This intrusion was minor, but it was "the nose of the camel under the tent." Soon

Professor Clites teaches at Tusculum College.

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word came down from central authority that we could not just play. We had to engage in *organized* exercise in the form of calisthenics. We were to do, in unison, situps, pullups, kneebends, and various other things that were supposed to be good for us. (It has since been determined that such exercises are not always good. Kneebends in particular sometimes cause considerable damage.) Most students began to hate physical education and, as a by-product, exercise in general.

I moved to a larger high school in another state for eleventh and twelfth grades. There every physical education period was organized, and we had a teacher who acted like a drill sergeant. Besides calisthenics we were forced to box, wrestle, and engage in several other activities whether they interested us or not. We were *never* allowed to do what we wanted.

Fifty years have passed since I voluntarily shagged flies and shot baskets for enjoyment. Those youthful activities provided far more exercise than what modern fitness authorities recommend, and no one had to force me to do it. That is the point. Dislike of coercion by parents, schools, or other government agencies is the reason that children today do not get what some expert has determined to be adequate exercise.

We didn't need a President's Council to tell us how much to exercise. Nature told us. □

PARENTS AND GOVERNMENT

by Duncan A. Simpson

Not too long ago there was an exposé on one of the network "tabloid" news programs. It had a profound effect on everyone I knew who had seen it. The exposé concerned the deplorable level of day-care treatment at a number of private day-care centers in a suburban area near our home.

Needless to say, this program prompted the local media to strike the chord. The network program had showed scenes of day-care workers hitting infants who cried too much and of the workers failing to provide any form of hygiene. It inflamed those who rely on day care so that both parents can work, and who inevitably carry guilt in their briefcase for leaving their infants with strangers. Saddest was the response of the parents of one of the abused children when the network showed them tapes of their own child being struck. The pain resounded. The media carried the torch, interviewing the parents and operators and stirring everyone's ire.

The local constabulary and politicos responded in Pavlovian fashion, threatening the prosecution of these day-care owners, the enactment of strict licensing laws, and the enrollment of a veritable army of inspectors to remedy the situation and to prevent additional abuses in the future. National "leaders" also responded with Congres-

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sional hearings, solemn declarations about the need for federal oversight of the rearing of children, and so on. The response portends further intrusion into the personal lives and obligations we all owe to our family and children.

The controversy struck particularly close to home because we have a three-year-old. We envisioned ourselves as that couple viewing the beating of their own child. It also prompted heated discussion about the role of government and caused me to re-evaluate my own role as a public servant.

At the time of the brouhaha, I was serving as a federal prosecutor, one who ostensibly was a guardian of the rights of these citizens. I began to question my role as one who upholds the public image of a "great provider" government. It became obvious to me the children had suffered because of the total abdication of the role of the parents in supervising the affairs of their own families and in failing to hold every service provider to the highest standards, especially when it involves the lives of children.

What, I asked myself, had caused this widespread abdication? I responded to comments from other parents, who universally said that stricter licensing rules were needed for day-care centers, by chastising them and saying that what we actually need is unrestricted day-care providers. I was deemed a lunatic and mocked by even our most libertarian friends. Their response clarified the problem in my mind. It was not merely the politicians' response that should be deplored, but, more importantly, the indifference of parents.

When government intrudes into the personal lives of its citizenry to establish guidelines, regulations, and licensing requirements, it removes from the individual the awareness that he must be a cautious consumer of goods and services. This governmental intrusion establishes an "acceptable" level of service or quality that too many rely on to their detriment or the detriment of their families. It has the interesting effect of spilling over into areas that are not regulated. For example, the essentially unregulated day-care market thrived, even for those who abused children, because the parents did not effectively scrutinize and inspect the day-care centers. Rather than dropping the baby off at 8:00 a.m. and picking him up at 5:00 p.m., the parents need to take an active role in making unannounced visits, and to encourage the participation of other parents in the affairs of the day-care center. That is the consumer vigilance that would assure that only the most pristine and proper day-care operators would remain in business.

I then asked several of my friends how often they dropped in, uninvited, at their child's day-care center, or spoke at length with the owner or interviewed other parents about the service provided. Few said that they had ever pursued any action when they saw that their child appeared happy at the center. It was a sad commentary on the dependence of government standards, even where none exist.

When we finally put our child into a school each day, we interviewed many other parents; my wife spent almost an entire day observing our son's interaction with the teachers at the school; we reviewed each teacher's credentials; and I checked on the sanitary conditions very carefully. Most importantly, I was encouraged by the owners' open invitation to drop by unannounced, and by their sponsorship of a very active parents' association. I have, on at least six occasions in the three months he has been in that school, dropped in uninvited, and have spoken with the owner each time. I am never satisfied that my son is getting the same care he would at home, but he is getting a structured learning that we could not provide. He also thrives on playing with his gleeful little classmates.

Since the television programs aired, no state legislation or city ordinances of any import have been passed to regulate the day-care centers. The foment has subsided. All I can hope is that the parents of some children learned a lesson and have become wiser purchasers of care for their children, their most precious possession. □

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THE FREEMAN
IDEAS ON LIBERTY

RAISING TAXES STIFLES INITIATIVE—INVISIBLY

by Richard W. Stevens

A business talk show host recently stated that even with higher taxes on everybody, the American spirit of initiative and hard work would survive. Nobody, he said, would stop working hard just because his taxes went up. A true story shows how that host was wrong.

Thirteen-year-old William Johnson was having trouble in his algebra class. William would fail algebra if he did not quickly improve his quiz grades. Mr. and Mrs. Johnson had exhausted themselves trying to help William with his studies. The Johnson family decided to get some outside help from a tutor. They answered a local newspaper advertisement offering tutors.

Across town, Sarah Thomas was a young mother with a mathematics degree and two small children. Her husband was making a good living, and Sarah was able to stay home with the kids. Still, Sarah wanted to keep her academic skills sharp and make a few extra dollars. Sarah answered a local newspaper advertisement seeking math tutors.

The source of these newspaper advertisements was a small local business, run by another homemaker with ambition. The business connects tutors with those needing them, and charges a small fee. When Sarah learned that she could make $15 per hour helping someone, and doing something she loved, she was enthusiastic. Soon Sarah was tutoring William in algebra.

After a few weeks, Sarah started wondering if it was worth it. Her husband's income put the Thomases in the 31 percent marginal federal tax bracket. State taxes took 4 percent, too. So for every $15 Sarah made, she could keep $9.75. This wasn't bad, but then she learned she had to pay self-employment tax (Social Security) of about 15 percent. Now she was left with $7.50.

Of course, when she worked Sarah had to pay a babysitter to watch the kids. If Sarah were to tutor one hour, she would have to pay the babysitter for two hours, since round trip travel time to William's house was about 30 minutes. Sarah paid the babysitter $3 per hour, for a total of $6. The 10 travel miles, at approximately 20 cents per mile, cost Sarah another $2. Her out-of-pocket expenses now amounted to $8 for a one-hour session.

Now Sarah incurs $8 in expenses against $7.50 in after-tax income. Sarah is eligible, however, for the 20 percent child care tax credit of $1.20. Her net after-tax income for the tutoring session: 70 cents.

When Congress raised taxes on the "rich," the Thomas family was hit with a 36 percent marginal tax rate. The new taxes cost Sarah another 75 cents. She was now *losing* $.05 per hour of teaching time, and making nothing for the 30-minute commute time and preparation time.

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Sarah Thomas could not afford to lose money tutoring, and sadly had to quit. The small business that connected tutors to pupils lost a tutor. William lost the services of smart, patient Sarah. And the government lost $7.50 in tax revenue.

In the market economy, free exchanges of goods and services for money result in mutual benefits for those concerned. The parties to such exchanges become wealthier because they trade what they value less for what they value more. Each gets more of what they consider valuable. Efficiency in production and distribution of goods and services in a system of free exchange leads to increased wealth for all the participants.

When Sarah tutored William, Sarah gained $15 (less expenses) and some psychic reward, and William gained knowledge and better grades. It was a fair bargain.

Individually, the tax rates by themselves had not looked too fearsome: 31 percent federal, 4 percent state, and 15 percent Social Security. And a 5 percent increase in marginal rates seemed modest enough.

But even before the $8 in expenses, Sarah's income per session dropped from $7.50 to $6.75 with the tax increase. She would be making only 75 cents more in the transaction than her babysitter.

Sarah could not simply pass the taxes through to William's parents by increasing her fees. The Johnsons were really stretching their budget to afford a tutor at all, and could not pay more to cover Sarah's taxes. By imposing the increased tax, the government ended the transactions which had enriched William, Sarah, the tutoring agency, and the babysitter.

After stifling the Sarah-William transaction, the government provided nothing to compensate for the loss. Nobody was better off. The government didn't even get the expected tax revenue. Since nobody counts what cannot be seen, nobody can accurately tally how many times people *stop* doing things to create wealth because of taxation.

True, the Johnsons will spend or invest the $15 on other things in the economy, and will gain some benefits. But the Johnsons will have lost the benefit they wanted most for that $15. Instead of tutoring services, perhaps they will get pizza or shares in a mutual fund. It will be like sitting down to a prime rib dinner, only to have government require you to accept several cheese sandwiches substituted for the same price. In real human terms, the Johnsons lost the full benefit of the $15 by being forced to take their second choice.

High taxes abort economic productivity. Raising marginal income taxes, even if only on the "wealthy," must result in lost wealth with no compensating gain. And yes, big government tax policies can and will invisibly snuff out the American spirit of individual initiative and hard work. □

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THE FREEMAN
IDEAS ON LIBERTY

THE ROUTE TO 9066

by Wilma J. Moore

Recently I had occasion to fill out an application form on behalf of my grandson for admission to a private elementary school. At the bottom of the application was a statement that the school ". . . is committed to achieving a well-balanced student population which reflects the ethnic and cultural diversity of San Francisco." At first glance this statement appears to be simply a rephrasing of the traditional policy of granting equal opportunity regardless of race, color, or creed. However, a second reading of those words reveals a very subtle shift from a policy of colorblindness to a policy of intense color awareness.

In spite of the dubious rationality of attempting to duplicate a city's racial percentages in the classroom, there are probably a number of good reasons that "ethnic diversity" could be considered a reasonable goal. One might be that a knowledge and understanding of cultures created by people of different races and different geographic locations is part of the definition of a liberal education. Another might be the wish to right past wrongs against many racial groups whose children were denied the advantages of a private education for no other reason than that they were born to non-Anglo-Saxon Protestant parents. A third reason might be to contribute to the elimination of racial prejudice and thus to the enhancement of world peace. There may even be other noble objectives that at the moment do not occur to me.

It would seem that, if one wished to offset a predominantly WASP student body, ensure cultural enrichment, and create an environment where racial tolerance could flower, one would actively seek those families in the community who had just immigrated to this country and who carried with them the language and customs of a different culture. One might also expect these schools to try to enroll children from households in which the members spoke a foreign language or in which the members still adhered to foreign religious or social customs though they had been in this country for some time. However, it seems that satisfying their positive goals does not require "progressive" schools to follow either of these positive criteria. Instead it means satisfying a negative one, i.e., that a prospective student *not* have an English-speaking white Anglo-Saxon Protestant lineage.

If their family names are Stroganov, Patel, or Yamamoto the children must have an enriching cultural heritage to bring to the school to balance the culture shared by the Smiths, Browns, and Joneses who are already on the student roster. Never mind that the Stroganovs have never spoken a word of Russian and never eat borscht, that the Patel child's mother is a corporate lawyer who wouldn't be caught dead in a sari and that no one in the family likes curry, and that the parents and children in the Yamamoto clan have never been to Japan, attend a Meth-

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odist church every Sunday, listen mostly to rock and roll music, and number hamburgers and French fries among their favorite foods. Never mind these or any of the other features that characterize their lives as American and not as some other culture. They fulfill the criterion as representatives of Eastern European, Indian, and Japanese culture, so they'll balance the student population nicely.

The disturbing premise that underlies this policy is that ethnic origin carries with it certain irrevocable cultural characteristics. If one is born of Russian parents one must somehow carry with him the genes of a Russian persona which inevitably produces Russian "culture." Because a child has Indian parents or an Indian ancestor, he or she will therefore be the carrier of a distinctive Indian essence. If one has an Oriental name and facial features, then this person also has an "Oriental perspective" on life.

When I hear arguments in favor of an admissions policy like that of the school my grandson might attend, I hear the voices of reasonable people in a different historical context whose noble objectives justified something that turned out to be just the opposite. As uncomfortable as it may be for the morally righteous of today to contemplate, an admissions policy that uses race or ethnic origin as a criterion has as its foundation the premise that justified Executive Order 9066, which set in motion the relocation of anyone of Japanese descent from the West Coast in 1942.

In California just after Pearl Harbor, one argument repeated *ad nauseam* by radio commentators, in letters to the editor, in newspaper editorials, and in magazine articles was that blood ties were stronger than political or social ones, and that no matter how long people of Japanese descent had lived in this country, no matter how many generations their families might count on this soil, they were still Japanese, and a part of them would forever owe allegiance to the Emperor of Japan. Since they were not "one of us," their loyalty was to be questioned, their civil liberties revoked, their property confiscated, their movements restricted, and ultimately their lives uprooted and their persons segregated—all because, by an accident of fate, they had the racial lineage of a political enemy.

The premise that children born of a certain racial caste are destined to share exclusive cultural preferences, personality characteristics, or a certain perspective on life is patently false. Yet thoughtful people everywhere seem unwittingly to be advocating an academic admissions criterion based squarely on that premise. The heterogeneity which characterized the life of persons of Japanese descent in the United States at the beginning of 1942 was ignored, submerged beneath a mountain of misconceptions regarding some ineluctable relationship between race and culture, between ethnic origin and values, between family origin and behavior.

Ethnic diversity on this level is a superficial goal resting on a fallacious premise which is ominous in its implications. Today the premise of inborn cultural characteristics may net a relatively benign result. Tomorrow it may reap a harvest of misery and shame. Today it may produce an ethnically balanced and peacefully interacting student body. Tomorrow it may erupt in a movement toward racial exclusion. Today this policy intends to educate children in the ways of enlightened civilization which liberates the individual from any stigma attached to a racial or cultural stereotype. Tomorrow, this same policy might educate children in the ways of collectivist tribal barbarity by identifying each other by that very stereotype.

The advocates of Executive Order 9066 justified their actions just as the advocates of "ethnic and cultural diversity" do today. In the process they became blind to their own racism and hardened to the results of the despotism generated by their erroneous assumptions. Let's hope modern school administrators and parents will recognize their own faulty logic in time before the color-blind society they so fervently hope to engineer becomes one that makes the blood lines of one's ancestors more important than the working of one's mind. □

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THE FREEMAN
IDEAS ON LIBERTY

FROM MARX TO MISES: A REVIEW ESSAY

by Peter J. Boettke

In 1989 we collectively sat and watched the defining ideology of the twentieth century die an inglorious death. Our newspapers and magazines were full of stories. The nightly network news reported almost daily on some radical change or another.

From May to June we watched as the crowds swelled in Tiananmen Square demanding democratic change. Americans' hearts filled with pride as the students chose the words of Patrick Henry, "Give me liberty, or give me death," to represent their aspirations. Our proud hearts turned anxious as the tanks rolled in to crush the democratic movement.

Political liberalization movements had been crushed before by Communist governments, notably Hungary in 1956 and Czechoslovakia in 1968. But never before had the act of oppression been simultaneously broadcast throughout the world. Any remaining legitimacy of Communism died as the lone unarmed protester faced off the tanks in Tiananmen. Democratic revolutions swept across Eastern and Central Europe in the last half of 1989. Solidarity in Poland and the Civic Forum in Czechoslovakia rose to power and replaced Communist governments. The Berlin Wall fell and Germany would be reunited. And in December, the tyrant Ceausescu was executed in Romania.

The economic, political, and moral implications of 1989 have not yet been fully understood. It is true that most intellectuals would admit that the revolutions of 1989 represented a move toward market economics and political democracy—the twin forces in classic European liberalism. Political democracy, though, can take several forms—parliamentary or presidential, proportional representation or two-party system, and so forth. The simple act of voting does not guarantee a liberal order. Many of the difficulties in the post-1989 era of reform, in fact, arise precisely in the area of finding the political infrastructure for the effective operation of democracy.

The shape and scope of politics possesses profound implications for the operation of the market. Not all market economies are equal. It seems that most observers are willing to admit that a market economy is better than a centrally planned one, but the reasons why and to what extent the market must be insulated from politics remain mysteries to most. This is unfortunate. For while economics is not everything there is in the world, it nevertheless constitutes a major component of our existence. Whether we are free men or slaves, whether we are rich or poor, whether we can develop as a people

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or stagnate, these are fundamentally economic questions.

The pure understanding of the nature and significance of economic forces and the implications for the social order are essential to learning how our world works. Ludwig von Mises was one of the most prolific and important contributors to our understanding of economic life. Mises' original contributions to economic science included monetary theory, capital theory, methodology, and market structure theory. But what truly distinguished Mises was his contribution to the study of comparative economic systems. His identification of the crucial flaw in socialist proposals was the most important economic discovery of the twentieth century.

Mises argued that rational economic calculation required that participants rely on the shorthand of market signals to make decisions concerning the alternative use of scarce resources. The exchange ratios established on the market, for example, provided important signals to economic actors so that they could make investment decisions that would coordinate their plans with those of others in the marketplace and lead to an efficient allocation of resources. Socialism, however, promised to eliminate the structural basis of the market economy—private property in the means of production. Without private property in the means of production, Mises argued, there could be no market for the means of production. Without a market for the means of production, there could be no relative money prices for the means of production. Without money prices reflecting the relative scarcities of capital goods, rational calculation of alternative uses of scarce resources could not be accomplished. Socialism, Mises pointed out, was logically flawed and could not achieve the humanitarian ends claimed with the socialist means employed. Economic chaos and political oppression would be the unintended results of trying to implement socialism.

Mises' argument concerning the problem of economic calculation under socialism has gone through a strange history. When introduced in his 1920 article and later developed further in his 1922 book, *Socialism*, this argument became the subject of debate and discussion among economists and social theorists throughout the world. Socialist thinkers, in particular, sought answers to the problems Mises raised. Even Nikolai Bukharin, the architect of Soviet Russia's policies of "War Communism" and the "New Economic Policy" in the 1920s referred to Mises as the "most learned critic of Communism."

In the late 1930s, however, the Polish socialist-economist Oskar Lange was perceived by many professional economists and intellectuals to have developed a successful answer to Mises. Socialism could indeed replicate the efficiency claims of capitalism in theory. Moreover, given the real world problems of monopoly and the instability of business cycles, socialism could outperform capitalism in practice.

Mises' argument was supposedly demonstrated to lack the force it was once thought to have possessed. Instead, Mises' *Omnipotent Government* and F.A. Hayek's *The Road to Serfdom* were interpreted as retreats by their authors from their earlier argument concerning rational economic calculation to a political argument about totalitarianism.

From that time until the early 1980s, it became the received wisdom in academic and intellectual circles that Mises had been refuted by Lange. Socialist planners could indeed engage in rational economic calculation. And, with the appropriate democratic political institutions, the totalitarian argument could be subverted as well. Mises died in 1973, and everyone, except a handful of followers, expected his theories to die with him. Instead of dying, Mises' influence has steadily grown in the last 20 years.

Several articles and books appeared in the 1980s which challenged the standard interpretation on a theoretical level, most notably Don Lavoie's *Rivalry and Central Planning* (1985). Lavoie's comprehensive treatment of the socialist calculation debate established that Lange had not dealt with the challenge Mises had originally put forth.

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Lange's version of neoclassical socialism was guilty of both a poor reading of the aspirations of Marxian socialism, and a poor understanding of the dynamic properties of a market economy. Events also seemed in Mises' favor. In the late 1970s China had chosen to pursue market liberalization to revive the stagnating Communist economy. Hungary encouraged market incentives within its state-run economy throughout the 1970s and 1980s. In Poland, the Solidarity labor union movement rose to challenge the legitimacy of the "workers' state" by pointing out that the Communist government did not benefit the proletariat. Even the Soviet Union announced economic liberalization plans under the leadership of Mikhail Gorbachev. When the revolutions of 1989 occurred and Communism collapsed throughout Eastern and Central Europe, even those who had earlier dismissed Mises' argument, like Robert Heilbroner, had to admit that "Mises was right."

But what exactly was Mises right about? To answer that question there simply is no better book than David Ramsay Steele's *From Marx to Mises: Post-Capitalist Society and the Challenge of Economic Calculation* (Open Court Publishers, 440 pages, $17.95 paperback). Perhaps there is no substitute for the original, but books that deal with the debates between thinkers put arguments in a perspective which the original works cannot possibly accomplish.

Steele provides a deep appreciation and understanding of the challenge that Mises' economic argument presents for socialist theory. Not only is *From Marx to Mises* an excellent examination of Mises' thought, but Steele also provides a primer on Marx's thought, including some of the most modern developments, such as analytic Marxism. *From Marx to Mises* moves well beyond a technical book in economic and political theory, and possesses a legitimate claim as a major contribution to "Grand Theory" in the social sciences.

Many people despise the teachings of economics because it puts parameters on their utopias. Economic theory demonstrates the practical limits of demands for social control over production and exchange. The challenge that economic calculation presents to socialist thinkers is that they are required to develop a method other than the price system which can serve the same function that calculation within the price system does. Economic calculation, despite its imperfections, affords market participants with a method by which to choose from all the technologically feasible projects those projects which are economical. In this way, scarce capital resources are allocated effectively, and the production plans of some are coordinated with the consumption demands of others through the price system. As Steele demonstrates, no workable solution to Mises' challenge has yet been formulated by socialist thinkers: neither labor unit calculation, nor administrative command, nor market socialism nor workers' self-management. Mises' challenge remains unmet: The socialist revolution has been defeated by mundane economics. Even the cover design of *From Marx to Mises* conveys this point with its portrayal of an abacus superimposed over a picture of revolutionary crowds—this picture, in itself, is worth the price of the book for those who come to understand its point.

But is Steele's book still important after 1989? Unfortunately, many academics, intellectuals, and politicians have come to believe that with the end of the Cold War Communism is dead and therefore the economic arguments against Communism and socialism are irrelevant. Nothing could be further from the truth.

First, many still do not understand the reason for the failure of the socialist model. Socialism, it is often asserted, failed because mankind was unable to live up to its worthy ideals. But, this gets the argument exactly backwards. Mankind did not fail to live up to socialism; socialism failed to live up to the moral and practical demands of mankind. Steele provides a great service by clarifying this point by separating the motivational question of economic incentives from the informational question of economic calculation (especially chapters 9 and 10). The problem was not simply a matter of

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good intentions. Even if leaders and workers possess nothing but the best of intentions, the question remains as to how would they *know* what the best way to proceed should be? The monetary price system and the process of economic calculation provides the prerequisite incentives and information to market participants so they can formulate effective responses to these questions. Not only does the competitive economy mobilize existing information efficiently, it generates the discovery of new information that otherwise would have remained hidden. Socialism simply does not possess similar institutions and thus is structurally hampered.

Second, since the argument concerning the inherent weaknesses of socialism is little understood, modern attempts at developing a "feasible socialism" continue to flourish and influence the direction of policy throughout the world. At a strictly theoretical level, for example, Pranab Bardhan and John Roemer published an article in the *Journal of Economic Perspectives* (Summer 1992) proposing a resurrected model of market socialism. Bardhan and Roemer argue that what failed in 1989 was a social system characterized by (1) public ownership, (2) non-democratic politics, and (3) command administration of resource allocation. The model they propose would eliminate (2) and (3), but (1) remains intact.

There are many others besides Bardhan and Roemer. Alec Nove's *The Economics of Feasible Socialism* has been reissued. Moreover, Joseph Stiglitz has a forthcoming book through MIT Press entitled *Whither Socialism?* Stiglitz argues that the major question in the wake of 1989 is whether modern economics can serve the socialist moral ideals of the nineteenth century. Stiglitz answers in the affirmative. Stiglitz's recasting of the argument provides a new challenge to economists working in the Misesian tradition, and Steele's book provides many insights that should be incorporated into an effective response to proposals for a revised theory of the socialist economy.

Third, the former Communist governments are still involved in very difficult transitions from authoritarian political economies to social systems more amenable to economic and political freedom. Western advice during the transition has so far been neither consistent nor very good. Mises' argument concerning economic calculation, however, entails much more than a criticism of socialism. It also entails a statement of why market economies achieve whatever degree of success that they do. But Mises' argument remains little understood even as a criticism of socialism, let alone as a positive prescription for the transition.

What this lack of appreciation of the duality of the calculation argument demonstrates is that the positive propositions generated by Mises have not yet been fully accepted by the economics profession and the intellectual community at large, and, as a consequence, they are not influential on the political stage. Steele presents Mises' ideas to the economics profession and intellectual community in such a careful and thoughtful manner that it is sure to invite investigation, criticism, and attempted refutation by skeptics in an open dialogue among concerned readers. A small note of caution, however, is in order. Steele does make a few errors in interpretation to my mind with regard to (1) the philosophical weaknesses of Misesian apriorism, (2) Hayek's critique of scientism and the engineering mentality, and (3) the importance of Leon Walras' contributions to economic science. On all three counts I would side with orthodox Austrianism and against the arguments presented by Steele. Despite these quibbles, Steele's book represents a major contribution to the literature and should find a place on the bookshelf of all who care about a free society. Neither dogmatic in presentation, nor lacking in strong conviction concerning the strength of reason and evidence in the service of ideals, David Ramsay Steele's *From Marx to Mises* provides a strong antidote to the sickness that afflicts modern discussions over the politics and history of our times. □

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A REVIEWER'S
NOTEBOOK

COSTLY RETURNS

by John Chamberlain

Despite the reassurances of James L. Payne in his *Costly Returns: The Burden of the U.S. Tax System* (265 pages, $14.95) that the IRS is not really out to get anybody, there is no way to dodge worry about the tax collector. The Institute for Contemporary Studies, Payne's publisher, may say that the Constitution has its guarantees against the seizure of bank accounts, salaries, houses, and cars without due process of law, but the guarantees are meaningless if you can't survive an audit. Good intentions won't save you from sudden changes in the tax code. Nor will they counter stupidity.

The IRS happens to be recruited from the lowest third of our law school graduates, which would seem to guarantee stupidity. The recruits are certainly not error proof. Congressman Christopher Shays, a Republican from Connecticut, upon listening to details about the error rate at a GAO hearing, said, "I am not used to hearings where I learn that 47 percent of all written response to taxpayers is incorrect, or that I learn that 36 percent of the non-computer kinds of responses, the personal contacts over the phone are incorrect. It just raises some questions in my mind that I haven't been able to sort out yet . . . if we can make such a colossal number of mistakes, how does that translate in the other things we haven't looked at? Here we are saying it is close to 50 percent . . . half of what we do are errors."

Payne estimates that Americans spend more than five billion hours annually on tax compliance. It is theoretically voluntary, but if you take anybody's word for that you are crazy. If you choose freely not to pay taxes, jail awaits. Voluntary compliance automatically means less money for investment. The disincentive effect of a tax destroys jobs.

Payne has a suggested cure: Let the government pay an audited person for the time he spends being investigated. When, in a rough analogy, the government seizes land to build highways, it forces policy makers to recognize the true cost of highways and therefore discourages them from building as many as they otherwise would. This suggests that there wouldn't be so many audits if the tax collector's money were used to finance them.

Oliver Wendell Holmes once said he didn't mind paying taxes, for "they bought him civilization." Payne turns Holmes around. "Taxation," says Payne, "may have been a minor nuisance in Oliver Wendell Holmes' day, in 1904, long before the adoption of the graduated income tax. Now, grappling with a full-blown welfare state tax system we are left pondering the converse of Holmes' dictum."

Actually, Holmes was dead wrong. Taxes are the price we pay for being uncivilized. There is a violation of conscience involved in most tax payments. Taxes are no longer seen as funds needed for comprehensive rational purposes but as part of a system of rip-offs needed to pay for special interests.

"What is a tax?" Herbert Stein asked in *The Wall Street Journal*. "A tax is a finan-

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cial burden levied by some citizens or residents of the country to provide benefits to others."

We have a "culture of taxes" that militates against tax repeals. At a Congressional Tax Administration hearing of a House Ways and Means Subcommittee, 17 officials for the IRS showed up to have their say, but there was only one representative from the American Bar Association. □

Visions Upon the Land: Man and Nature on the Western Range

by Karl Hess, Jr.

Washington: Island Press, 1992 • 278 pages
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Reviewed by Jonathan H. Adler

Dayton Hyde wanted nothing more than to improve the quality of his land. A ranch owner in southwestern Oregon, Hyde believed that through careful stewardship he could promote wildlife conservation on his lands, as well as the adjacent lands owned by the federal government, while still benefiting from the grazing of cattle. Toward this end, he created Operation Stronghold, an association of private landowners dedicated to encouraging wildlife conservation.

Part of Hyde's plan was to use his grazing permits on nearby public lands for deer and elk, rather than for his cattle. Unfortunately, the federal government had a different idea. While Hyde was entitled to purchase grazing fees on public lands for cows, the Forest Service would not allow those permits to be used for other species. Hyde could graze cattle, or forfeit the right to those permits. That the land would be maintained and the Forest Service would receive the same revenue in either instance was immaterial. Hyde's idea was simply not part of the Forest Service's vision for its land.

Dayton Hyde's dilemma is a microcosm of the major problem facing public lands today: a massive, technocratic public lands bureaucracy that has little interest in encouraging either private stewardship or economic development. As public lands form the backbone of the Western range—spanning a half-billion acres—the effects of misguided federal policies reverberate throughout the western United States. Until this fundamental fact is changed, the situation is unlikely to improve. This is the message of Karl Hess, Jr.'s provocative *Visions Upon the Land: Man and Nature on the Western Range*, a book which attempts to reframe the entire debate surrounding public lands and provide for a definitive, if somewhat controversial, solution.

Those urging reform of public land management have traditionally fallen into one of two camps: those who believe the problem is with individual land users compelled by short-sighted self-interest to ignore ecological concerns, and those who believe the problem is one of bureaucratic institutions. While Hess acknowledges that both camps provide valuable insights, he feels both are slightly off the mark. For Hess, the problem, as well as its solution, is to be found in recognizing the role of "landscape visions"—"the perceptions and beliefs held by people of how the western range should look and be"—in shaping land policy. One must understand what landscape vision gave rise to the public lands bureaucracy, and the nature of the visions that have dominated it since.

For Hess, there have been three primary landscape visions over the course of American history. The first of these is the agrarian vision of Jeffersonian democracy. While Jefferson is rightfully regarded as the primary architect of America's liberal political order, he is also the father of America's public lands and held a landscape vision that, in the words of Henry Nash Smith, "government should be dedicated to the interests of the freehold farmer." This policy was pursued through the management of the western range—dividing it into homestead plots too small for grazing or subsistence farming in the arid west, which resulted in a western dependence upon lands still owned by the state. As Hess points out, "for all practical purposes, the making of

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the tragedy of the commons was the official policy of the United States government."

The ecological failures wrought by the Jeffersonian vision gave rise to its replacement, the progressive landscape vision. This was "a vision of men and women assuming conscious and purposeful control over nature and directing its uses to the exclusive benefit of humankind." By these lights, scientific experts could mold the public lands and allow for their optimal utilization by mankind. Yet, as with all such visions of scientific management and social control, this vision similarly failed to protect the western range.

Due to its inherent shortcomings, the progressive vision was overtaken by that of environmentalism. This vision, committed to protecting the western lands as "hallowed ground," would become the least tolerant and most destructive of all, not only to human needs, but to the environment it sought to serve as well. Lands were no longer to be scientifically managed for man's benefit. Now they would be managed for the environment's sake alone.

The common thread underlying the history of public lands is the problem with a central landscape vision that is coercively imposed upon all lands and those who dwell within them. Notes Hess: "Visions of engineered landscapes and sacred places have deluded progressive and environmental thinkers into believing that nature can be mastered and set on a straight and narrow course as dictated by the will of the state." Although economic central planning has been a dismal failure, the far more difficult task of centrally planning an ecology is somehow believed to be possible. In the end, "government has elevated its role to that of the visionary state—a sovereign entity empowered to make particular visions the official creed of government." Whereas America was founded on the ideal of allowing for a multiplicity of personal visions that compete in an open market, in the western range there would only be room for one, and it would be dictated from Washington, D.C.

Hess' solution is, as one might surmise, to remove public lands from the control of government, and return them to the American people. He calls it "democratization," though it is simply privatization under another name. By divesting the state of the responsibility of managing these lands, Hess seeks to establish "a market of landscape visions." Such a system will endow individuals with "the ability to seek landscapes that are intensely personal and that only nature can rule as being ecologically fit or not." Some may choose to ravage their own lands, but others, such as Dayton Hyde, will be free to engage in responsible stewardship as they see fit.

Whether Hess' plan for privatization—the distribution of shares to all American citizens that can be used for the purchase of public lands—is the best plan of action is certainly a matter for debate. Any attempts to privatize federal lands are sure to meet with strong political opposition. Nonetheless, the direction that must be taken remains clear: Government control of a half-billion acres of land cannot be allowed to continue. On this point, Hess demonstrates, both ecologist and classical liberal should agree. The next step is making it happen. □

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